Management Audit of
Commonwealth Edison Company
Ethics and Compliance

Final Report

Presented to:
The Illinois Commerce Commission

Presented by:
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Engagement Purpose and Scope

The Climate and Equitable Jobs Act (CEJA) includes provisions addressing utility ethical conduct and transparency (220 ILCS 5/4-604). Section 4-604(g) requires the Commission to initiate a management audit by the later of 18 months of CEJA's effective date or of a felony conviction, plea agreement, or Deferred Prosecution Agreement by a public utility. The U.S. Attorney's Office for the Northern District of Illinois announced in July of 2020 a deferred prosecution agreement addressing a criminal investigation for bribery involving ComEd. U.S. District Court approval of the agreement triggered initiation of a Section 4-604(g) management audit of ComEd, which must include at a minimum six elements.

The Illinois Commerce Commission (ICC) engaged The Liberty Consulting Group (Liberty) to perform the audit. The accompanying report describes the work we undertook, the factual findings we made, the conclusions we reached, and recommendations for changes or improvements we found appropriate.

The Six Audit Elements

The scope for this audit addresses the elements required under the Request for Proposals pursuant to which the ICC retained Liberty for the performance of this engagement. Those elements conform generally to the elements required by the Section 4-604:
- Financial and Accounting Procedures, Internal Controls, and Practices
- Assessment of Ethics and Compliance Risks
- Ensuring Effective Communication of Controls, Codes, Practices, and Procedures
- Enforcing Controls, Codes, Practices, and Procedures
- Support for and Commitment to Compliance and Ethics
- Actions Following Discovery of Misconduct.

The remaining sections of this report summary describe the areas we examined within those categories, our overall conclusions, and our recommendations for securing improvements.

Financial and Accounting Procedures, Internal Controls, and Practices

This report's Chapter 7: *Finance and Accounting and Internal Controls Environment* summarizes and describes ComEd's system of financial and accounting procedures, internal controls, and practices, largely driven by Exelon. The principal areas this report summarizes and describes with respect to such procedures, controls, and practices include:

• *Internal Control Framework*	• *Sarbanes Oxley*	• *Financial Accounting Integrity*
• *Internal Audit*	• *Board Audit Committee*	• *ICC Requirements*
• *Tariff and Rates Controls*	• *Affiliate*	• *DPA Controls Implications*

Our review addressed how these aspects of finance and accounting and the internal controls environment operate to ensure maintenance of fair and accurate books, records, and accounts. We found them sufficient in so doing. They provide reasonable assurances of transaction recording under means and measures designed to produce conformity with Generally Accepted Accounting Principles. We found them consistent overall with ICC requirements and designed to maintain accountability for assets and expenditures attributable to ComEd, which operates under a holding company with numerous utilities for whom asset and resource sharing is considerable.

While finding the finance and accounting and internal controls environment sound overall, we offer two recommendations, the first of which better reflects statutory responsibilities and the second of which can produce marginal improvement:

- The Chief Compliance and Ethics Officer (CC&EO) can and should place substantial weight on the work performed under the direction of Exelon's chief accounting officer, but the CC&EO remains obliged to provide a distinct review of internal controls under Section 604(d)(2)(D)
- Exelon should reduce a lag in reviewing policy and procedure documents by conducting reviews and making revisions on their established cycles.

Assessment of Ethics and Compliance Risks

This report's Chapter 4: *Compliance and Ethics Risk Assessment* addresses the processes for conducting assessments of ethics and compliance risks. The principal assessment process aspects this chapter addresses include:

- *Responsibility for Performing Assessments*
- *Targeted 2023 Changes*
- *Process as Executed Before 2021*
- *Implementing Change Recommendations*
- *Process as Executed Since 2021*
- *Anti-Fraud Measures*

We found the risk process conducted in a manner commensurate with the compliance and ethics identified through sufficiently broad participation and substantial, structured methods. Management has shared those risks regularly and in sufficient detail with senior ComEd and Exelon leadership and with the boards of directors of both entities. That sharing has included a description of gaps and improvement opportunities observed and means and methods for addressing them.

While finding the processes for conducting assessments of ethics and compliance risks sound overall, we offer a recommendation designed to produce moderate improvement:

- Enhancing the tracking of status in implementing compliance program recommendations like those resulting from the risk assessment process would enhance accountability for taking improvement actions, would give board of director members better visibility into implementation status and barriers, and would likely improve implementation durations.

Ensuring Effective Communication of Controls, Codes, Practices, and Procedures

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Enforcing Controls, Codes, Practices, and Procedures

The accompanying report treats enforcement and communication related to controls, codes, practices, and procedures together, in order to avoid significant overlap and duplication of the factual underpinnings applicable to each.

Chapters Two through Seven of this report all address the establishment and communication of effective controls. Chapter Five: *Securing Compliant and Ethical Performance and Behaviors* does so with specific reference to providing training and communications and measuring effectiveness. It also focuses on how that establishment and communication apply to all groups involved - - directors, officers, employees, contractors, consultants, lobbyists, vendors, agents, and

business partners The principal establishment and communications methods this chapter addresses, noting the importance of considering how other chapters address the general topic, include:

- *Training & Communication*
- *Connecting Compliance to Compensation*
- *Use of Exit Interviews*
- *Lobbying & Political Consulting*
- *Compliance Performance Effectiveness*
- *Use of Lessons Learned*
- *Interactions with public Officials*
- *Assessing Employee Engagement*
- *Political Action Committees*

We found the governance and guidance documents, such internal controls, codes of conduct, practices, and procedures supported by effective enforcement mechanisms. We found incorporation of specific compliance and ethics factors into the performance management and assessment processes that employees and their supervisors regularly perform. The results of those processes in turn affect compensation decisions, such as compensation awarded as a percentage of base pay. Our review of violation investigations (described more fully below) showed follow through on personal accountability for performance and did not indicate sensitivity to the position or importance of the individual(s) involved. Decisions and actions we observed comported with guidance and governance document emphasis on personal accountability and the objectivity expected in carrying review and investigation of potential violations.

We also found communication and understanding of internal controls, codes of conduct, practices, and procedures supported by a sound variety of methods. While finding establishment and communication of effective controls generally sufficient and applicable to all the named groups, we offer four recommendations that can produce marginal improvement:

- While substantial attention on communications has been clear, Exelon's Compliance and Ethics (EC&E) should develop an overall, structured plan for addressing compliance and ethics communications.
- Exelon should accompany training and communications delivery with participant surveys or focus groups and follow-up to measure their effectiveness.
- A system for tracking compliance and ethics communications and employee access to policies can provide insight into a number of useful factors about them.
- It will remain useful to continue evaluation and adjustment of employee engagement survey compliance and ethics questions to optimize their usefulness in identifying topical areas and work units or locations on which to focus training and education efforts.

We also found two areas where Exelon appears to have planned or contemplated actions, but which await initiation or completion. It is important that progress in those two areas remains a priority:

- EC&E follow through on a series of outstanding training recommendations should remain a priority.
- Follow through on use of exit interviews with departing personnel can lead to the production of useful information about compliance and ethics program, procedures, and effectiveness.

Support for and Commitment to Compliance and Ethics

This report's Chapter Two: *Compliance and Ethics Program, Organization, and Resources* addresses foundational efforts in creating a compliance program and organization and populating it with sufficient, experienced, and empowered resources. These factors provide a necessary foundation for ensuring that the boards of directors and senior leadership can provide strong,

explicit, and visible support and commitment to requirements and expectations regarding compliance with law and with the highest levels of ethics and integrity. The foundational elements that chapter addresses include:

- *Compliance Program Description*
- *Compliance Policies & Procedures*
- *Interactions with public Officials*
- *Lobbyists & Political Consultants*

- *EC&E Reporting & Organization*
- *Use of Subject Matter Experts*
- *Use of Outside Resources*
- *Other Organizations' C&E Roles*

- *Executive Oversight*
- *Risk Management Committees*
- *Enterprise Risk Management*
- *Records Management*

We found the compliance program comprehensive, clear, appropriately scoped, and supported by adequate procedures. The organization primarily responsible for the program, EC&E, is led by a senior executive whose organization is sufficiently empowered, and well-structured and staffed. It has access to a broadly based group of subject matter experts from across Exelon, including representation from ComEd. Policies adopted since the DPA comprehensively address lobbying and political consultant agreements and services and interactions with public officials. We found the regular reporting required under those policies both sound and diligently executed.

While finding the foundational elements in supporting and demonstrating a commitment to statutorily compliant behavior and to the highest levels of ethics and integrity, we offer a recommendation similar to that addressed in connection with Financial and Accounting Procedures, Internal Controls, and Practices:

- Management should exercise more rigor in ensuring that compliance and ethics policies and procedures undergo regular review and updating; ensure that their requirements and actual practice remain consistent.

This report's Chapter Three: *Board and Top Leadership Direction* addresses "tone at the top" aspects of support for and commitment to compliance and ethics. The principal aspects the chapter addresses include:

- *Role of the Exelon Board's Audit Committee*
- *Executive Compliance and Ethics Oversight*

- *Quarterly Reporting to Boards of Directors*
- *Efforts to Enhance Tone at the Top*

We found these aspects of providing support for and commitment to compliance and ethics sufficient, but do offer one recommendation important to ensure that engagement of "executive management" generally in compliance is effectively stated and circumscribed:

- Policies and procedures and actual practice should delimit the corporate compliance program "oversight" role of "executive management," making clear that their roles do not include self-defined concepts of oversight, but instead focus on promoting and acting to secure compliant and ethical performance in their organizations and by themselves.

Actions Following Discovery of Misconduct

This report's Chapter Six: *Reporting and Pursuit of Potential Violations* addresses how remedies for harm resulting from misconduct are governed by procedures and how results in instances we examined comport with those procedures. Decisions about consequences, including disciplinary action, follow from a commonly directed and executed investigation process, some aspect of which the discussion under the above heading of *Enforcing Controls, Codes, Practices, and Procedures* addressed. Chapter Six addresses the investigation process and its results together. We found that process well designed, objectively carried out, and timely completed. Participants in and actions

employed to identify remedies are sound in how they address individual actor consequences and in how they instigate efforts to examine compliance program content and need for improvement in internal controls, code, policies, and practices. Management reported no violations of law requiring reporting under Section 4-604(d)(2)(E) have occurred.

While finding generally appropriate the investigation process and execution, as well as the process for determining consequences at investigation completion, we offer a recommendation appropriate for controlling the application of an exception to the commitment to preserve reporter anonymity in cases of legal, safety, or security concerns:

- Management should document the process for addressing such exceptions, including the requirement for prior senior executive review and the obligation to report exceptions made to the Exelon and ComEd boards of directors.

We also offer a recommendation intended to make a marginal improvement in controls related to access to the system that EC&E uses to manage investigations:

- Document investigation database procedures and periodically test the continuing effectiveness of measure to control access to it.

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List of Acronyms

Acronym	Full Name
A&R	Audit and Risk Committee
ACE	Apparent Cause Evaluations
ACFE	Association of Certified Fraud Examiners
AEF	Architecture Engagement Form
AGCA	An Assistant General Counsel
AGCB	A second Assistant General Counsel
AGCC	Assistant General Counsel
AGCD	An Associate General Counsel
AGCE	Assistant General Counsel
AGCF	Assistant General Counsel
AICPA	American Institute of Certified Public Accountants
ALA	Affiliate Level Agreement
ARC	Analysis & Resilience Center Legal Subcommittee
ARMA	American Records Management Association
BSC	Business Services Company
CAE	Chief Audit Executive
CAP	Exelon Utilities Corrective Action Program
CC&EO	The Chief Compliance and Ethics Officer
CCO	Chief Compliance Officer
CCRC	Corporate Citizenship Review Committee
CEJA	Climate and Equitable Jobs Act
CFE	Certified Fraud Examiner
CIT	Human Resources Centralized Investigation Team
COBC	Exelon's Code of Business Conduct
COSO	Committee of Sponsoring Organizations
DARE	Define, Assess, Report, Enable
DPA	Deferred Prosecution Agreement
EAS	Exelon Audit Services
EAS	Compliance and Audit Services
EC&E	Exelon's Compliance and Ethics
ECI	Ethics & Compliance Initiative
EEI	Edison Electric Institute
ERM	Enterprise Risk Management
EVP C&A	Executive Vice President, Compliance & Audit
EVP CA&R	Executive Vice President, Compliance, Audit, & Risk
ExCERT	Compliance and Ethics Resource Tracker
FCPA	Foreign Corrupt Practices Act
FEC	Federal Election Commission
GAAP	Generally Accepted Accounting Principles

GRC	Global Risk & Compliance
HR CIT	Human Resources Centralized Investigations Team
IAPP	International Association of Privacy Professionals
ICC	ILLINIOS Commerce Commission
IIA	Institute of Internal Auditors
ILTA	International Legal Technology Association
INCC	IT NERC CIP Compliance
ISACA	Information Systems Audit and Control Association
ISAP	Internal Self-Assessment Program
KRIs.	Key Risk Indicators
Liberty	The Liberty Consulting Group
LMS	Learning management System
NERC	North American Electric Reliability Corporation
now EC&E	Corporate Compliance Office
OSHA	Occupational Safety and Health
PAC	Political Action Committee
PCI DSS	Payment Card Industry Data Security Standard
PORCB	Rider Purchase of Receivables
PORT-SC	Public Official Request Tracker - Supplier Certification
QAR	Quality Assessment Report
RCIs	root cause investigations
REA	Renewable Energy Adjustment
Risk Universe	Compliance & Audit Risk Universe
SCCE	Society of Corporate Compliance and Ethics
SCOC	Exelon Supplier Code of Conduct
SEC	U.S. Securities and Exchange Commission
SME or SMEs	Subject Matter Experts
SrVP- EAS	Senior Vice President, Exelon Audit Services
T&E	Exelon Enterprise-Wide Travel & Entertainment
TSA	Transition Services Agreement
USAO	U.S. Attorney's Office

Chapter One: Introduction

A. Work Scope and Objectives

1. CEJA Provisions Addressing Compliance and Ethics

The Climate and Equitable Jobs Act (CEJA) includes provisions addressing utility ethical conduct and transparency (220 ILCS 5/4-604). This audit addresses the scope established for this engagement by the Illinois Commerce Commission (ICC) - - a scope the corresponds to the six elements that CEJA addresses regarding utility ethical conduct:

- Board of Director and top leadership support for and commitment to compliance and ethics
- Ethics and compliance risk assessment processes
- Mechanisms to secure compliant and ethical performance and behaviors
- Effectiveness of processes for pursuing potential violations
- Training and communications regarding compliance and ethics matters
- Financial and accounting procedures, controls and practices.

This report's Chapter Two: *Compliance and Ethics Program, Organization, and Resources* examines the compliance and ethics program structure, content, responsibilities and accountabilities, resourcing, empowerment, policies, methods, procedures, and other program "infrastructure." These elements all comprise important elements in demonstrating top level support for a culture of compliance and for making it a core element of how leadership expects employees and suppliers to go about accomplishing company business. Without them, no "tone at the top" can ring true, however, loudly or frequently expressed.

This report's Chapter Three: *Board and Top Level Direction* then proceeds to address more directly the nature of that tone and how it is communicated and reinforced. It addresses the support the boards of directors of Exelon and of ComEd provide in establishing and maintaining a suitably strong culture of compliance and ethics, making clear the accountability that inside and outside resources have for acting fully consistently with federal and state law and regulations and with appropriate company standards of performance.

This report's Chapter Four: *Compliance and Risk Assessment* examines cycles, responsibilities, accountabilities, staffing, structure, process, and results of compliance and ethics risk assessments. It addresses the sufficiency of compliance and risk assessment processes in addressing the risks that ComEd faces and it examines the frequency, completeness, and actionability of reporting of the results of that process and measures to mitigate risks to ComEd's and Exelon's senior management and to their boards of directors.

This report's Chapter Five: *Securing Compliant and Ethical Performance and Behaviors* addresses the means, methods, and controls of implementation of mechanisms for securing compliant and ethical performance. The chapter addresses compliance and ethics controls, codes of conduct, practices, and procedures. It also addresses means for effectively communicating the overall expectations, the specific requirements and the scope and application of those means, methods, and controls to board of directors members, officers and executives, employees, contractors,

consultants, lobbyists, vendors, agents, and business partners. The chapter specifically addresses training needs and the programs and modules designed to meet them. Chapter Five's treatment of means employed to secure compliance with internal controls, codes of conduct, practices, and procedures also addresses accountability, disciplinary and other job action consequences, and incentives for compliance, and their consistent and objective application regardless of the level or influence of the individual(s) involved.

This report's Chapter Six: *Reporting and Pursuit of Potential Violations* examines the structure, completeness, propriety, and execution of procedures for responding to allegations, concerns, or questions about compliance and ethics matters. It addresses investigation resources and processes as designed and as employed. The work underlying this chapter's content included review of the details of a representative sample of investigations. Our review included an examination of resulting discipline or job action relative to the findings made. The chapter also examines measures to log conduct examined and response following investigation.

This report's Chapter Seven: *Finance and Accounting and Internal Control Environment* addresses the system of financial and accounting procedures, internal controls, and practices employed by and for ComEd. It assesses the sufficiency of system design to ensure maintenance of fair and accurate books, records, and accounts. It examines measures for ensuring the recording of transactions in manners that permit preparation of financial statements in conformity with generally accepted accounting principles and ICC requirements and to maintain accountability for assets.

2. *Deferred Prosecution Agreement Requirements*

The July 17, 2020 Deferred Prosecution Agreement (DPA) between ComEd and the United States Attorney for the Northern District of Illinois imposes significant requirements, making it a strong influencer of company actions in the period we examined. Our examination did not include an assessment of performance prior to the DPA. However, the last two years have witnessed substantial change in a number of areas, driven at least in part by the DPA. Our work needed to consider the newness of change and in some important instances its continuation in examining current effectiveness in certain relevant areas. Without judging what state should or could have existed in the recent past, assessing the consequences of present circumstances needs to consider whether gaps existing now are likely to diminish as changes made become settled in their operation and those still underway reach completion. In short, assessing the significance of gaps in a stable organization generally produces more clarity in where changes remain appropriate. The DPA has compelled or instigated significant change, making it an important contributor to change at ComEd internally and at and in Exelon-level elements and actions critical to compliance and ethics at its largest utility.

Management has summarized the DPA's obligations as including:
- Continued ComEd full cooperation with the federal government's investigation
- Prohibition on ComEd statements contradicting acceptance of responsibility set forth in the DPA or facts described in the DPA's accompanying Statement of Facts
- Payment by ComEd of $200 million to the United States Treasury, without claim of tax deduction or rate recovery of any portion

- Continued ComEd implementation of a "compliance and ethics program designed to prevent and detect violations of U.S. law throughout its operations, ... including, but not limited to, the minimum elements set forth in [DPA] Attachment B"
- The filing of three annual confidential reports with the United States Attorney's Office (the last due in June 2023) detailing implementation of Attachment B's required measures.

Attachment B to the DPA addresses ComEd's corporate compliance program. It notes ComEd's agreement to continue, consistently with its DPA obligations, to review internal controls, policies, and procedures and to address deficiencies in controls, compliance code, policies, and procedures regarding compliance with U.S. law. ComEd has also agreed to make modifications necessary and appropriate for maintaining internal controls needed to ensure fair and accurate books, records, and accounts and for maintaining policies and procedures designed to detect and deter violations of U.S. law effectively. DPA Attachment B describes the elements minimally necessary to satisfy these areas of agreement:

- High Level Commitment
  - Strong, explicit, and visible support and commitment from directors and senior management to a corporate policy against violations of U.S. law and the company's compliance code.
- Policies and Procedures
  - Promulgation of a clearly articulated and visible corporate policy against violations of U.S. law memorialized in a written compliance code
  - Promulgation of compliance policies and procedures designed to reduce prospects of U.S. law and compliance code violation; institution of measures appropriate to encourage and support observance of compliance and ethics policies and procedures against U.S. law violations at all personnel levels and applicable to all directors, officers, and employees and outside parties where necessary (consultants and lobbyists); notification to all employees of the duty to comply.
  - Ensuring financial and accounting procedures and internal controls designed to ensure maintenance of fair and accurate books, records, and accounts, providing reasonable assurances of transaction recording supportive of financial statement preparation in conformity with generally accepted accounting principles and other criteria.
- Periodic Risk-Based Review
  - Use of periodic risk assessments addressing ComEd circumstances to develop compliance policies and procedures.
  - At least annual review and updating of policies and procedures to ensure continued effectiveness, accounting for industry developments and standards.
- Proper Oversight and Independence
  - Assignment to senior Exelon or ComEd corporate executive(s), supported with adequate autonomy and resources and authority, of compliance code, policy, and procedure implementation and oversight, with independent reporting to internal audit, boards of directors and their committees.
- Training and Guidance

- o Implementation of mechanisms to ensure effective communication of compliance code, policies, and procedures to all affected, including periodic training and certification of its completion for all directors, officers, and those occupying positions of leadership or trust or special responsibilities regarding compliance.
    - o Maintenance of an effective system for providing urgent and other guidance and advice on complying with compliance code, policy, and procedural requirements.
- Internal Reporting and Investigation
    - o Maintenance of an effective system for protected (and where possible confidential) reporting of possible U.S. law, compliance code, policy, or procedure violations.
    - o Maintenance of effective, reliable, resourced allegation response, investigation, and documentation.
- Enforcement and Discipline
    - o Implementation of effective enforcement mechanisms, including incentivizing compliance and disciplining violations.
    - o Implementation of appropriate disciplinary procedures to address violations applied consistently, fairly, and without regard to position, including reasonable steps to remedy harm from misconduct and to ensure prevention of similar misconduct (e.g., assessing internal controls, compliance code, policies, and procedures, with modifications necessary to ensure an effective compliance program).
- Mergers and Acquisitions
    - o Implementation of policies and procedures requiring risk-based due diligence on potential new business entities.
    - o Prompt application of compliance code, policies, and procedures to newly acquired businesses or merged entities and prompt training on compliance code, policies, and procedures.
- Monitoring and Testing
    - o Conduct of periodic compliance code, policies, and procedures review and testing to evaluate and improve effectiveness.

B. Background

CEJA sets policy, standards, and requirements for ethical conduct and transparency by electric and gas utilities. In addition to measures to decarbonize the power sector in Illinois and address equity needs in communities, the law includes a number of new requirements and provisions for Illinois utilities related to ethical conduct and transparency. Section 4-604 declares as state policy the obligation for public utilities to "adhere to the highest standards of ethical conduct." Section 4-604(a) finds it necessary to:

- "develop rigorous ethical standards and scrutinize and limit public utility actions, expenditures, and contracting"
- "provide increased transparency to ensure ethical public utility conduct."

Section 4-604(b) finds sets forth standards applicable to electric and gas public utilities and their energy-related affiliates "*to the extent practicable*." Section 4-604(d) finds requires the naming of a Chief Ethics and Compliance Officer by each public utility, responsible for:

- Ensuring compliance with the highest standards of ethical conduct

- Ensuring compliance with standards set forth in Section 4-604 finds or otherwise adopted under Illinois law
- Overseeing creation and implementation of an ethics code that applies to directors, officers, employees, lobbyists, contractors, consultants, agents, vendors, and business partners in their activities by or for the utility
- Overseeing code, practices, and procedures training for utility directors, officers, employees, contractors, consultants, lobbyists and political consultants
- Overseeing ongoing monitoring of ethical standards compliance by contractors, consultants, and vendors contracted to perform lobbying activities
- Overseeing at least annual reviews of internal controls, code of ethical conduct, practices, and procedures for effectiveness in ensuring the highest standards of ethical conduct
- Maintaining records of conduct (and response thereto) found violative of Illinois law, rules, and regulations, response to that conduct
- Making such records available for Public Utility Ethics and Compliance Monitor inspection
- Overseeing and ensuring development of internal controls, policies, and procedures to achieve the Section's ethics and transparency objectives
- Overseeing preparation, submission, and certification of annual reports to the ICC (described below).

Section 4-604(e)also requires the Chief Ethics and Compliance Officer to review and approve all agreements with contractors, consultants, or other vendors for the purpose of performing lobbying pursuant to the Lobbyist Registration Act, 25 ILCS 170/3. Section 4-604(e)prohibits the subcontracting of any work performed under such agreements and sets as a prior condition for paying providers under such contracts the prior submission of detailed invoices and reports describing activities, amounts billed, all persons involved, identification of all things of value requested, solicited or provided to public officials and staff, including without limitation money, gifts, entertainment, hiring referrals and recommendations made to the utility, campaign contributions, vendor referrals, and contributions to charitable organizations solicited by or for the official.

Section 4-604(f) sets May 1 (of 2022 for the first required version) as the filing date for annual filing with the ICC of compliance and ethics reports. These reports must describe internal controls, codes of ethical conduct, practices, and procedures in detail. They must also identify material changes to such requirements and guidance made during the reporting years and made or anticipated during the year of report filing. Section 4-604(f) specifies the subjects that the annual reports must address - - a group of subjects that generally established the scope of the examination that we have performed. These areas comprise:

- Financial and Accounting Procedures, Controls, and Practices
  - A summary and description of them
  - An explanation of how their design reasonably ensures fair and accurate books, records, and accounts
  - An explanation of how they provide reasonable assurances of transactions sufficiently and appropriately to permit financial statements preparation in

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conformity with generally accepted accounting principles and with ICC requirements and to maintain asset accountability

- Ethics and Compliance Risk Assessments
  - A summary and description of the processes for conducting them
  - A representation of assessment conduct in accordance with those risks and results sharing with utility senior management and the board of directors
- Training, Communication, and Reinforcement
  - At least a summary of training programs designed to ensure effective communication of internal controls, code of ethical conduct, practices, and procedures to directors, officers, employees, contractors, consultants, lobbyists, vendors, agents, and business partners
- Leadership Support
  - A summary of actions to ensure strong, explicit, and visible director and senior management support and commitment to a policy against federal and state legal violations
- Enforcement
  - A summary of mechanisms to enforce internal controls, code of ethical conduct, practices, and procedures, including compliance incentives and discipline
  - A demonstration of consistent and fair enforcement regardless of position held
- Investigation and Remediation
  - Demonstration of the taking, upon discovery of potential misconduct, reasonable remedial steps to remedy the harm resulting from such misconduct, including disciplinary action
  - Demonstration of conduct and response logging as required by Section 4-604(d)(2)(E)
  - Demonstration of assessing and modifying the internal controls, code, policies, practices and procedures to ensure compliance program effectiveness.

Chapter Two: Compliance and Ethics Program, Organization, and Resources

A. Chapter Summary

The most fundamental task of leadership in establishing a strong compliance and ethics culture, commitment lies in establishing and ensuring the rigorous design and execution of a compliance program led by a well-structured, staffed, and empowered organization to address compliance and ethics. Exelon has done so. It has recently consolidated responsibility for compliance and ethics, internal audit and enterprise risk management under a top level executive, who heads Exelon's Compliance and Ethics (EC&E) function. This consolidation has also moved the lead compliance executive role from under Exelon's Legal Department (and to the Exelon CEO) and elevated the position to the executive vice president level. Exelon's operation of this organization across its units, including ComEd, supports development of significant levels of experience and expertise, access to industry-current tools and systems, application of sound methods consistently and objectively, and support from a broad range of expertise from persons given compliance and ethics roles that supplement their normal operating responsibilities.

EC&E plays a sound role in all key aspects of compliance and ethics. It applies and it ensures that others who have particular compliance and ethics roles (*e.g.*, compliance risk assessment and allegation investigation) use clear and comprehensive approaches, methods, and systems. While well understood, policy and procedure documents addressing these approaches, methods, and systems had become outdated - - finally becoming updated in early 2023, well after their established review cycle dates. The many initiatives and changes EC&E has managed in the past year or two go some way to explaining the delay in updating them, but it nevertheless remains important for Exelon to become more rigorous in ensuring that policy and procedure documents remain current with actual practices. The organizations under the senior EC&E executive operate on an Exelon-wide basis, providing overall direction for ethics, compliance, and internal audit for the operating utilities, including ComEd. A wide and appropriate range of compliance and ethics activities draw from expertise in the utilities and across the Exelon's common business groups to identify compliance and ethics risks, plan for responding to them, promoting a culture of compliance, and providing local "connections" knowledgeable about compliance and ethics expectations, requirements and resources, and assisting in the examination and resolution of matters that require investigation. The leads in the compliance and ethics organization are all senior and well-experienced, and they exhibited sound and comprehensive awareness of the matters in their areas of responsibility, knowledge of industry trends and developments in those areas, and a commitment to coordination in working with others in EC&E and with the many subject matter experts across Exelon.

B. Background

We examined efforts of boards of directors and senior executives in establishing strong, explicit, and visible support and commitment to compliance and ethics. Establishing a well-structured, staffed, and empowered organization to address compliance and ethics comprises an essential element of providing that leadership and support. We examined how Exelon, a primary contributor, and ComEd have provided a structure seeking to do so. We looked at how that organization has changed in the aftermath of the DPA, what support leadership shows for it in providing it sufficiently broad and comprehensive responsibilities, adequate resources, access to

board and executive leadership, and visibility and respect throughout ComEd and the Exelon-level organizations that support the utility's management and operations.

Our examination addressed how Exelon has designed the compliance and ethics program that it applies at and for ComEd and the Exelon-level organizations that provide it and the parent's other utilities with a variety of corporate and business services. This examination considered how and under what organizations the program actually operates and how what happens compares to the policies and procedures intended to guide those operations. A sound compliance and ethics program requires clear, comprehensive, effectively executable methods and practices, making the policies and procedures that define them and the performance expectations sought essential in promoting clarity, accountability, and ultimately the culture that a sound program should seek to instill, sustain, and react and evolve as internal and external circumstances dictate.

How promptly and effectively the compliance and ethics organization has responded to the circumstances leading to and the requirements imposed by the DPA has proven a substantial driver of change in Exelon's compliance and ethics program. We have considered those needs because they are inseparable from questions of overall compliance and ethics program performance effectiveness. That consideration relates, however, to current status and potential improvement opportunities, not evaluations of past performance, which the scope of our engagement excluded.

This chapter looks at changes in the organization and its reporting and stature. It examines the alignment of responsibilities among its staff, interactions of that staff with the rest of the Exelon groups on which it relies and with which it becomes engaged when assessing compliance risks, forming plans to mitigate them, supporting communication and training needs, and ensuring effective knowledge of and enforcement of requirements when questions arise or when potential instances of misconduct surface. We examined EC&E staffing numbers, skills, experience, and divisions of responsibility.

We examined how top leadership provides overall direction to compliance and ethics matters and operation. We looked at the integration of compliance and ethics planning and activities with those of enterprise risk management and internal audit. We examined the principal systems and tools that EC&E uses (some of them addressed in more detail in later chapters of this report).

The overarching goal of the specific lines of inquiry undertaken in preparing this chapter's examination of the compliance and ethics program, organization, and resources has been to verify that Exelon has created for ComEd and that ComEd adequately participates in a program that has close top leadership and board engagement, empowers a central organization sufficiently to ensure identification, management, mitigation, and reporting of compliance and ethics risks and to provide for candid, thorough, prompt, investigation, resolution, and responsive actions (both systemic and personal) to potential violations, concerns, and questions. Failure to achieve those characteristics threatens establishment and maintenance of a culture of compliance that sets high expectations for compliant and ethical performance and, more importantly, consistently achieves them. They provide the foundation at the bottom that is required to give force to tone set at the top, however, forcefully and sincerely delivered.

C. Findings

1. Corporate Compliance Program Description

An outdated dated document, Exelon's "Corporate Compliance Program" (the 2015 Program Document) continued through February 2023 as the document describing the purpose, scope, accountabilities, responsibilities, procedures, methods, activities, and work products of that program. LE-AC-20, Rev. 3, effective May 11, 2015 contains that 2015 Program Document, which remained unchanged but under revision through our field work on this engagement, producing a revised version (Revision 4) in February 2023 (the 2023 Program Document). This new version provides a largely unchanged statement of purpose:

> *To establish and maintain a rigorous Compliance & Ethics Program (Program) to enable Exelon Corporation to conduct business activities with the highest ethical standards, the utmost integrity, and in compliance with applicable laws and regulations, and to avoid actions that violate or appear to violate these standards.*

The 2023 version cites a number of external sources of guidance in forming the program:
- 2020 U.S. Justice Department Criminal Division's Evaluation of Corporate Compliance Programs
- 2021 U.S. Sentencing Commission's Organizational Sentencing Guidelines
- 2008 Federal Energy Regulatory Commission Policy Statement on Compliance
- 2021 Illinois Climate and Equitable Jobs Act (CEJA).

The 2015 Program Document defined compliance risk areas identified as warranting detective or preventative controls over legal and regulatory requirements inherent in business operations. The document identified several compliance program attributes, including defined accountabilities, documented policies and procedures, risk assessments, training and awareness communications, compliance monitoring, and investigations. The 2015 Program Document described the "Culture of Compliance" sought by Exelon as follows:

> *The tone within the work environment set through consistent actions and regular communications by all levels of management that embeds the expectation of strict adherence to the laws and regulations that govern business operations. Indicia of a strong and continuing Culture of Compliance include the awareness that Compliance is the minimum level of acceptable performance, as well as personal honesty and integrity instilled in the workforce.*

The 2023 version offers a somewhat different definition of "culture of compliance:"

> *A culture within the organization reflecting an expectation and widespread acceptance of adherence to relevant laws and regulations, company procedures, and the Code of Business Conduct. Indicia of a strong Culture of Compliance include awareness across the workforce of applicable Compliance requirements and standards, a shared recognition that Compliance is the minimum level of acceptable performance, and a shared value of personal and corporate integrity among company personnel.*

The 2023 Program Document's list of key compliance program elements also includes monitoring external events, collecting and analyzing compliance metrics, engaging in efforts to promote a "culture of compliance," training, regular review and updating of policies and the Code of Business Policies, maintaining training and reporting capabilities, maintaining an adequate records maintenance program, directing investigation of potential non-compliance instances, identifying remedial actions for them, disseminating lessons learned, escalating issues to senior leadership or the Board of Directors, periodically reporting compliance matters, fulfilling legally required "Chief Compliance & Ethics Officer" (CC&EO) tasks and roles, and supporting Exelon Audit Services (EAS) anti-fraud efforts.

EC&E has accountability for program effectiveness, with the 2023 version describing compliance as "an organization-wide responsibility" with all employees and business groups accountable for understanding and executing their compliance responsibilities. The 2023 Program Document version notes EC&E's responsibility to work with business leaders to determine how to manage new and emergent risks.

The 2015 version explicitly obligated all employees and contractors to notify superiors, the applicable Subject Matter Experts (SME or SMEs), Legal Department, or Corporate Compliance Office (now EC&E) of compliance failures or concerns and to comply with legal and regulatory requirements, company procedures for implementing them, and Exelon's Code of Business Conduct (COBC). The document noted the existence of an Ethics HelpLine that provided a method for anonymous reporting. The document expressed management's reservation of the right to impose corrective action, up to and including employment termination and remediation for conduct violating the program. The 2023 Program Document addresses much of this content, but not all explicitly. However, other Exelon procedures (some cited in the 2023 Program Document) currently address such matters in reasonable detail, as described in later chapters of this report.

The 2015 Program Document gave the Audit Committee (later to become the Audit & Risk Committee), of the Exelon board of directors an obligation to remain knowledgeable of program content and operation and to provide overall implementation and effectiveness oversight. The 2023 version permits other, designated board committees to exercise that role, but the Audit & Risk Committee continues to do so. The 2023 Program Document cites the "retirement" of the Ethics and Compliance Steering Committee, to which the document assigned an oversight role. The next chapter of this report addresses the composition and role of this group's cross-functional membership consisting of officers, lead counsel, and other personnel. The 2023 Program Document describes program oversight as shared among the Board committee, the CC&EO, EC&E, and "executive management."

The 2015 Program Document gave to the department of a Chief Compliance Officer that preceded the department now headed by the Executive Vice President of Compliance, Audit, & Risk (EVP CA&R) direct Audit Committee access (still the case) and responsibility for providing the then Board Audit Committee regular reports on program implementation. Specifically this 2015 Program Document gave the Compliance Office responsibilities that included:

- Establishing Compliance Standards, elements and a framework for SMEs to follow

- Provide day-to-day, operational program oversight
- Facilitating formation of steering committees for compliance risk areas with enterprise-wide applicability
- Ensuring that SMEs establish and track performance metrics
- Consolidating metrics into a table to keep unit senior management and the Audit Committee informed of measures, trends, and developments
- Performing Mitigation Oversight reviews and selecting risk areas to review annually
- Coordinating with Audit & Controls (now EAS) and Risk Management departments (both now under the EVP CA&R, as described below) to align annual compliance risk assessment with other risk identification activities
- Using business unit leadership, enterprise risk inventory, audit surveys, and other data assist in compliance risk ranking
- Using the enterprise risk inventory and audit plan to identify areas for review.
- Ensuring SME completion of annual risk assessments
- Supporting business unit compliance implementation activities
- Supporting Legal, Compliance Area Leads, and SMEs in compliance-related Investigations
- Coordinating Training and Awareness communications, developing three-year training calendar
- Coordinating with internal stakeholders to ensure the efficient delivery of required training
- Coordinating annual review of Compliance Risk Universe among SMEs and compliance leads; delivering review results to Ethics and Compliance Steering Committee
- Delivering results of risk ranking processes to board's Audit Committee
- Fostering a culture of compliance among business units, Ethics and Compliance Steering Committee, compliance area leads, and SMEs.

The 2023 Program Document calls for annual Compliance Risk Assessments and for tracking status and evaluating the effectiveness of remediation actions resulting from those assessments. The document also requires EC&E regularly to evaluate risk assessment process effectiveness and to provide oversight and resources commensurate with the identified compliance risks. The 2015 Program Document described the annual risk assessment process in more detail, explaining that it included the following activities, providing a template for performing them:
- Identifying relevant laws, rules and standards that require compliance by area
- Analyzing existence of policies, procedures, and practices to achieve compliance
- Evaluating significance and likelihood of compliance failures considering the effects of mitigation measures.

The risk assessment process still follows a well-defined process, but the 2023 Program Document does not provide a template. The 2023 Program Document does, however, list key Risk Assessment activities:
- Identifying existing, new, and emerging compliance risks
- Identifying and assessing compliance risk programs, procedures, incentives, controls, past events, audits, other reviews, the company's "Culture of Compliance," and external trends and events

- Identifying process improvements to ensure compliance and remediating control gaps
- Communicating insights, key risks, and other assessment results for business and Exelon Board of Director use.

Both versions of the document emphasize the role of individuals in organizations across Exelon SMEs whose regular job responsibilities or expertise have led to their designation for developing, implementing, and monitoring activities designed to mitigate non-compliance risks. The 2015 program document also described Compliance Area Leads as executives, key managers, counsel, or business-unit-level compliance contacts responsible for coordinating resources to support and perform compliance tasks. The 2023 version no longer uses the Compliance Area Lead designation, but a broad and extensive set of responsibilities has remained with the SMEs since the 2015 Program Document, and as described below.

The 2015 Program document made reference to several related documents:
- Ethics, Legal and Regulatory Compliance, LE-AC-2
- Reporting Unsafe or Improper Conduct, LE-AC-204
- Investigating Unsafe or Improper Conduct, LE-AC-205
- Records Management, Retention and Disposition Policy, LE-AC-4
- Records Management, Retention and Disposition Procedure, LE-AC- 401.

The 2023 Program Document's list of references changed to:
- Reporting Potential Violations of the COBC, LE-AC-204
- Investigating and Resolving Alleged Violations of the COBC, LE-AC-205
- Records and Information Management, Retention and Disposition Policy, LE-AC-4
- Records and Information Management, Retention and Disposition Procedure, LE-AC-401
- U.S. Department of Justice, Criminal Division, Evaluation of Corporate Compliance Programs
- Guidelines for Sentencing of Organizations promulgated by the U.S.
- Sentencing Commission (as amended)
- Federal Energy Regulatory Commission Policy Statement on Compliance, 125 FERC 61,058 (2008)
- Illinois Climate and Equitable Jobs Act (CEJA) (2021).

2. Compliance-Related Policies and Procedures Changed Since 2020

Exelon has made changes to essentially its entire suite of policies and procedures addressing compliance matters since 2020, including:
- Exelon Compliance & Ethics Procedure, Due Diligence and Monitoring Procedure for Third Parties Engaged in Political Consulting and Lobbying Activities, LE-AC-PCD8- 001, Rev. 5 (effective June 30, 2022)
- Exelon Compliance & Ethics Policy, Interactions with Federal, State and Local Public Officials, LE-AC-POL8-001, Rev. 5 (effective June 30, 2022)
- Exelon Compliance & Ethics Policy, Referrals, Recommendations, and Requests from Public Officials Regarding Employment Decisions, LE-AC-POL8-002, Rev. 4 (effective June 30, 2022)

- Exelon Compliance & Ethics Policy, Vendors and Suppliers Affiliated With or Referred, Recommended, or Requested by Public Officials, LE-AC-POL8-003, Rev. 4 (effective June 30, 2022)
- Exelon Corporate Procedure, Records and Information Management, Retention and Disposition, LE-AC-4, Rev. 4 (effective December 31, 2020)
- Exelon Legal Process, Merger Commitment Tracking Process, LE-AC-70, Rev. 5 (effective October 10, 2020)
- Exelon Anti-Bribery and Anti-Corruption Corporate Policy, LE-AC-60, Rev. 3, (effective January 17, 2022)
- Exelon Enterprise-Wide Travel & Entertainment (T&E), Corporate Credit Card and Expense Reimbursement Policy, AP-AC-10, Rev. 12 (effective June 21, 2022)
- Exelon Supply Procedure, Exelon Spending and Authorization to Contract with Suppliers Policy, Rev. 2, SM-AC-POL1-001 (effective July 28, 2022)
- Exelon Corporate Communications, Contributions Guidelines - Contributions of Money, Property and Services, Rev. 3, CP-AC-PCS4-001 (effective January 20, 2022)
- Exelon Insider Trading Policy, LE-AC-202, Rev. 3 (effective April 26, 2022)
- Exelon Corporate Political Contributions Policy, LE-AC-23, Rev. 3 (effective April 26, 2022)
- Exelon Supplier Code of Conduct (SCOC)
- Exelon Corporate Policy, Records and Information Management, Retention and Disposition, LE-AC-4, Rev. 4 (effective 12/31/2020)
- Exelon Corporate Integrated Privacy Program, LE-AC-31, Rev. 2 (effective Nov. 21, 2022)
- Exelon Corporate Procedure, Protecting Exelon Information, LE-AC-301, Rev. 8 (effective Nov. 28, 2022).

3. Records Management Procedures

Records management falls among the responsibilities of EC&E. Exelon maintains a comprehensive list of procedures applicable to document creation, management, storage, retention, and disposition and training with respect to these activities:

- Exelon Corporate Policy, Records and Information Management, Retention and Disposition, LE-AC-4, Rev. 4 (replacing an August 1, 2018 version as of December 31, 2020)
- Exelon Corporate Procedure, Records and Information Management, Retention and Disposition, LE-AC-401, Rev. 9 (replacing an August 1, 2018 version as of December 31, 2020)
- Exelon Corporate Procedure, Exelon Main Records Retention Schedule, LE-AC-401 Exhibit A, Rev. 6 (replacing an April 1, 2017 version as of January 1, 2020)
- Exelon Corporate Procedure, Exelon Environmental Records Retention Schedule, LE- AC-401 Exhibit E, Rev. 3 (replacing a July 1, 2014 version as of July 1, 2021)
- Exelon Corporate Training and Reference Material, Guidelines for Record Creation, Storage and Destruction, LE-AC-401-1001, Rev. 9 (replacing an October 1, 2018 version as of December 31, 2020)
- Exelon Corporate Training and Reference Material, Guidelines for Record Creation, Storage and Destruction: Form 3 - Annual Records Review and Self-Assessment Template,

LE-AC-401-1001-F03, Rev. 6 (replacing an October 1, 2018 version as of December 31, 2020)

- Exelon Corporate Training and Reference Material, Records and Information Management Off-Site Storage and On-Site Storage (replacing an October 1, 2018 version as of December 31, 2020).

Exelon has maintained three retention schedules over time; Main, Environmental, and Nuclear schedules. The first two continue following the Constellation separation in February 2022. The Main Exelon Schedule addresses requirements for most of the business and operational records subject to retention requirements. The schedules provide detailed lists of document types, required retention periods, and sources of authority governing those periods. It also requires consultation with the Legal Department before the disposal of any records related to "existing or reasonably anticipated complaint, investigation, lawsuit, government inquiry or anything of such a nature."

The Main retention schedule assigns responsibility for records management to the Compliance and Ethics Group, operating under the Exelon Legal at the time of the latest versions of the retention schedules. The more recently revised Environmental retention schedule drops the reference to Legal as the location of EC&E. The Main and Environmental retention schedules call for assignment to documents of type codes reflecting retention requirements, the dates triggering beginning and ending of required retention, and a citation to the source requiring retention. The schedules identify e-mails containing substantive information or attachments as records subject to retention requirements. Recognizing the complexity of adhering to differing state requirements, the document generally assigns the longest applicable retention period applied by any state authority. More than 40 pages detail the retention information for specific document types in the Main retention schedule, with a 25-page similar list for the Environmental retention schedule.

4. Charitable Contributions Policy

Contributions to charitable and other tax exempt organizations have proven at other U.S. utility and holding companies a source of compliance and ethics concern. Exelon replaced its Corporate Governance, Contributions Guidelines (LE-AC-22, Rev.2 effective March 12, 2012) as of January 2022 with a Corporate Communications, Contributions Guidelines - Contributions of Money, Property and Services (Rev. 3, CPAC-PCS4-001). Exelon's Vice President for Corporate Relations led the replacement process, with EC&E, Corporate Communications, and Supply department personnel providing input.

The new policy statement makes a number of technical and clarifying changes, while incorporating many of the material substantive provisions of the old policy. The changed policy continues to require Exelon board approval of contributions in excess of $1,000,000 and Corporate Citizenship Review Committee (CCRC) approval of those between $50,000 and $1,000,000. Material changes to the policy include:

- Adding a statement of purpose requiring contribution consistency with Exelon company, customers, and the public interests and prohibiting employee receipt of personal benefits in exchange for activities in obtaining contributions
- Eliminating the former policy's exclusion of several types of contributions:
  - Civic, professional, and trade organization membership

- o Lobbying and political activity matters
  - o Government imposed franchise fees, taxes, filing fees, permit fees, assessments and similar charges
  - o Commercial investments, commercial transactions, and other business arrangements with uncertain economic or other returns (*e.g.*, subsidies for alternative energy, conservation, other environmental initiatives)
  - o Other contributions excluded by the committee responsible for overseeing the policy
- Narrowing the approval of contributions of less than $50,000 to just the executive responsible for the Corporate Relations team of the operating company involved
- Adding a series of provisions allowing requests that company suppliers make contributions, subjecting them to a number of controls and making clear that supplier response has no repercussions for its business with the company.

5. Change in EC&E Organization Reporting

While not formally changing the 2015 program document (Corporate Compliance Program; LE-AC-20, Rev 3), Exelon has been for some time operated through a compliance and ethics organization structure, responsibilities and accountabilities, and resources generally consistent with the recently adopted 2023 Program Document described above (LE-AC-20, Revision 4). The 2015 version described a Chief Compliance Officer as high level, having direct access to the Exelon Board of Directors, and possessing responsibility for ensuring an effective compliance and ethics program. By 2017, that position was held then by a CCE&O individual then having the title of Vice President and Deputy General Counsel, Chief Compliance and Ethics Officer, The CC&EO reported to Exelon's General Counsel.

a. <u>May 2019 Organization, Resources, and Risk Assessment</u>

Exelon has stated that it became aware of the federal investigation eventually leading to the DPA when served May 15, 2019 with a grand jury subpoena. The predecessor to the current EC&E organization had at that time similar responsibilities to those exercised now in compliance risk assessment planning, execution, and results evaluation. The next chart shows the organization of EC&E's predecessor at that time.

2019 Exelon EC&E Organization

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                        │ President & CEO │
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                        ┌────────┴────────┐
                        │   EVP & Chief   │
                        │ Strategy Officer│
                        └────────┬────────┘
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                        │ Sr. VP & General│
                        │     Counsel     │
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                        ┌────────┴────────┐
                        │  VP and Chief   │
                        │  Compliance &   │
                        │ Ethics Officer  │
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                   ┌─────────────┴───────┐
                   │  Executive Admin.   │
                   │    Coordinator      │
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| Assistant General Counsel | Assistant General Counsel | Assistant General Counsel | Sr. Manager, Enterprise Records Management | Principal Analyst | Analyst |

| | Assistant General Counsel | Assistant General Counsel | Principal Analyst | | |

| | Sr. Analyst | Sr. Analyst | | | |

b. <u>Creation of Executive Vice President Level Position</u>

Exelon named in March 2020 an individual to the newly created position of Executive Vice President, Compliance & Audit (EVP C&A), reporting directly to the Exelon CEO. Execution of the DPA would follow several months later, in July 2020. The CC&EO, who began thereafter to report to the new EVP C&A position also has had direct access to Exelon's CEO and Board of Directors. The next table shows the 2020 changes that affected EC&C leadership above the CC&EO level.

2020 Top-Level EC&E Leadership Changes

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                │ President & CEO │
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                         │
                ┌────────┴────────┐
                │ EVP, Compliance │
                │     & Audit     │
                └────────┬────────┘
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            ┌────────────┴────────────┐
   ┌────────┴────────┐       ┌────────┴────────┐
   │  VP & Chief     │       │    Sr. VP       │
   │ Compliance and  │       │ Exelon Audit    │
   │ Ethics Officer  │       │   Services      │
   └─────────────────┘       └─────────────────┘
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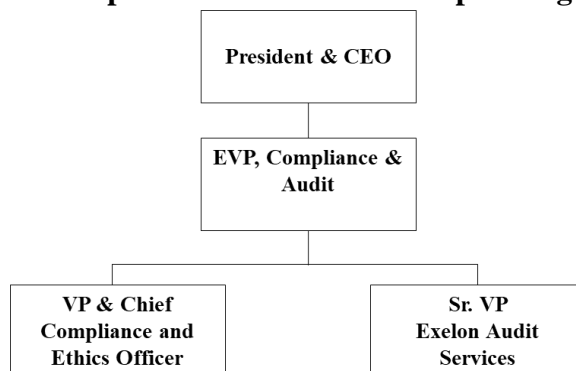
That EVP C&A's responsibilities expanded in February 2022 (upon the separation of Exelon's competitive generation and energy businesses) beyond Compliance and Audit Services (EAS),

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adding Enterprise Risk Management (ERM) to them. The position title changed then to Executive Vice President, Compliance, Audit, & Risk (EVP CA&R) to reflect the added responsibilities. Exelon has since continued to manage all compliance, audit, and ERM activities on a consolidated and on an Exelon-wide basis. The next table shows the top level organization following the addition of the ERM director.

2022 Top-Level EC&E Leadership Changes

Despite the change in compliance and ethics reporting from Exelon's General Counsel to its CEO, legal department resources reporting to that position still play an important role in EC&E operation, with much of Legal and EC&E operations involving legal risks and requiring legal judgments. Examples of areas that involve coordination between EC&E and Exelon Legal include:

- Interpretation of statutes and regulations
- Submitting annual reports to the U.S. Attorney's Office to address Deferred Prosecution Agreement Attachment B required measures (the last due in June 2023)
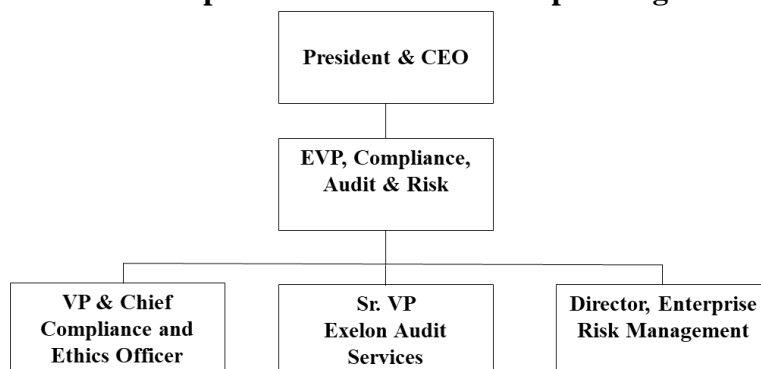- Determining when ethics investigations require Legal or outside counsel direction or support
- Reviewing with Legal's Labor & Employment group workplace misconduct concerns
- Cybersecurity compliance - - Legal oversees incident response plans and responses to incidents; EC&E provides advice to Exelon business teams
- Developing and executing cybersecurity regulatory strategy.

EC&E's cybersecurity lead has a dotted line reporting relationship to Exelon's Deputy General Counsel on cybersecurity matters.

The March 2020 separation of EC&E from the Legal organization occasioned movement of attorneys over to EC&E, but with generally continuing compliance and ethics responsibilities. The transferred attorneys have retained existing deputy/associate/assistant general counsel titles, but no longer report through or receive direction from the Legal organization. The two groups continue to coordinate on compliance and ethics matters that occasion needs for legal engagement or opportunities for information and viewpoint sharing. Management cited a number of other recurring needs for coordination among EC&E and other Exelon groups having major compliance roles (*e.g.*, Human Resources, EAS, and External and Regulatory relations) cited by management:

- EVP CA&R participation in Exelon Executive Committee and North American Electric Reliability Corporation (NERC) Compliance Executive Steering Committee meetings
- Quarterly senior level Legal and EC&E sessions that address cybersecurity matters

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- Monthly NERC Steering Committee and Executive Steering Committee meetings addressing compliance with NERC regulations involve EC&E, the NERC Compliance team, Operating Company personnel responsible for NERC compliance, and IT.
- Regular interaction between EC&E, Legal, and Human Resources in performing significant ethics investigations
- Monthly reviews of investigations by the Human Resources Centralized Investigation Team (CIT), and observations and trends from that team's work, attended by EC&E, Human Resources, and Legal to review personnel.

Exelon Human Resources and EC&E established the CIT in late 2020 to investigate harassment, discrimination and other serious employee relations matters and share resulting observations useful in improving personnel management practices. The CIT works closely with EC&E, providing it with resources whose particular training and job responsibilities fit well with human relations-related matters that have compliance and ethics implications.

6. *Current Ethics and Compliance Organization*

EC&E continues to operate on a centralized basis, as it had previously, addressing operations at all the Exelon utilities and at its competitive generation and energy businesses before their separation in February 2022. The next tables shows the early 2023 EC&E organization.

Current EC&E Organization
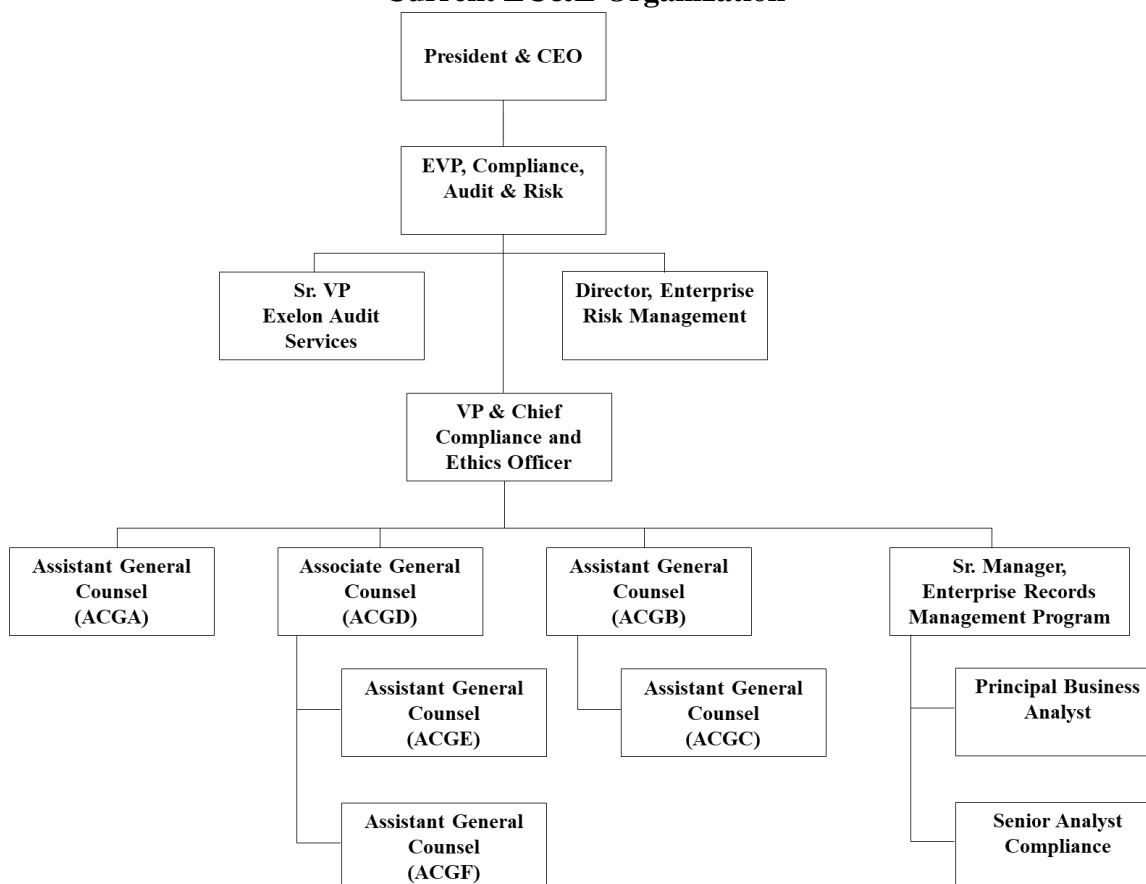
The EVP CA&R, who reports directly to the Exelon President and CEO, provides overall direction of compliance and ethics program activities. Prior to the CC&EO's retirement around the end of 2022, the following executives reported directly to the EVP CA&R:

- Vice President, Deputy General Counsel, and CC&EO
- Senior Vice President, Exelon Audit Services (EAS SrVP)
- Director, ERM Operational Risk (Enterprise Risk Management).

Following this recent retirement, the EVP CA&R assumed the role of CC&EO, at least provisionally, pending consideration of either a replacement for the retired executive or a restructuring of senior reporting under the EVP CA&R. The CC&EO's staff of nine operates under four direct reports:

- An Assistant General Counsel (AGC**A**)
- A second Assistant General Counsel (AGC**B**)
  - Assistant General Counsel (AGC**C**)
- An Associate General Counsel (AGC**D**)
  - Assistant General Counsel (AGC**E**)
  - Assistant General Counsel (AGC**F**
- A Senior Manager, Enterprise Record Management Program
  - Principal Business Analyst
  - Senior Analyst, Compliance.

Current staffing reflects elimination of two Senior Analyst positions, one for Legal Compliance and one for Compliance & Governance, following organizational consolidation. The only other change anticipated at the time of the preparation of this report was a move of a Principal Business Analyst supporting administration of Exelon's Management Model to report to Exelon's President and Chief Operating Officer. Management considers that support more associated with general business, rather than compliance & ethics operations.[1]

AGC**A** has responsibility for the compliance risk assessment process on a day-to-day basis, relying on other members of the team as well. Exelon Audit Services (EAS) consults during compliance risk assessment planning. Like the other members of EC&E, this group also participates in regular all hands EC&E and EAS meetings that discuss compliance and audit issues, activities, and developments. AGC**A** has responsibility for planning and executing annual compliance risk assessments and maintains the lists of compliance risks and of the Exelon-wide group of SMEs who have responsibility for activities that identify and manage those risks and that program execution requires. Quarterly meetings and other regular interaction with the group of SMEs across Exelon develop and share information about compliance events, emerging risks, metrics data, and training. Participating in internal/external investigations as needed. AGC**A**'s recurring activities include:

- Tracking privacy and cybersecurity proposed legislation, co-leads monthly Information Governance Council sessions that address governance risks and initiatives

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[1] ComEd's comments on a draft of this report noted that this change occurred.

- Ensuring compliance Payment Card Industry Data Security Standards compliance
- Addressing Exelon's information classification protection program
- Supporting Architecture Engagement Form (AEF) review of IT matters
- Managing the Data Loss Prevention program for Personally Identifiable Information
- Managing Exelon's privacy management solution
- Managing compliance with FERC Standards of Conduct
- Providing Telephone Consumer Protection Act and CAN-SPAM advice related to marketing or informational outreach to customers.

AGC**B** has overall responsibility for assuring proper investigation and resolution of compliance and ethics complaints or concerns and oversees the helpline that permits the raising of concerns and questions. The group also has responsibility for communicating company compliance and ethics values and expectations, has drafted the Exelon COBC, and has responsibility for interpreting that code. AGC**B** also has responsibility for design and delivery of related training. The group participates in annual risk assessment activities as well.

AGC**D** focuses on reliability and cybersecurity compliance matters. This group participates in annual risk assessment activities on reliability, resiliency, and security risks and contributes in those areas to EAS annual planning. AGC**D** also participates in EC&E investigations where its expertise and availability allow. NERC standards and requirements also form an important element of the group's responsibilities, which include:

- Direction of internal investigations involving potential NERC compliance matters
- NERC Compliance Review Team overseeing new NERC compliance issues
- NERC Steering Committee addressing compliance enforcement and program activities
- NERC Reliability Compliance Committee monthly reviews of open NERC compliance matters and developments
- IT NERC CIP Compliance Team Key Manager Forum with subject matter experts on NERC CIP matters
- Review of NERC Internal Self-Assessment Program (ISAP) Lessons Learned results
- Work with Subject matter experts to review lessons learned under NERC Internal Self-Assessment Program (ISAP) Lessons Learned.

Specific examples of recurring cybersecurity responsibilities include:

- Gas Pipeline Cybersecurity Leadership oversight of new federally-required program and regular Executive Steering Committee reporting on program implementation
- Weekly Legal and Compliance Cyber Meetings on pending cybersecurity issues
- Cyber Policy Team oversight of compliance activities and new cyber regulation
- Participation in company and industry (electric and natural gas) sessions addressing and benchmarking cybersecurity trends, events, or benchmarking
- Participation in Edison Electric Institute (EEI) group that tracks, coordinates response on, and benchmarks cyber and national security issues
- Work with SMEs on cybersecurity drills to test readiness to response to events
- Review of focused reliability and cybersecurity compliance training materials

- Support for cybersecurity Apparent Cause Evaluations (ACE) and Other Root Cause Investigations and assistance in developing remediation plans.

The three AGC's who reported directly to the CC&EO (**A**, **B**, and **D**) average 14 years of experience in their current positions, ranging from 7 to 21. The very recently retired CC&EO had 24 years in an equivalent position. The EVP CA&R, who originally came to Exelon in March 2020, temporarily assumed the position of CC&EO as well.[2] He had served to that point as compliance officer for a $57 billion investment firm. He had formerly served as a U.S. Securities and Exchange Commission enforcement and examinations regional director and as Criminal Division chief for the Northern District of Illinois U.S. Attorney's Office.

Consolidation of compliance and ethics functions and responsibilities across Exelon's entities makes all costs for them common. ComEd bears a share of them under a general allocator (the Modified Massachusetts Formula, or MMF) commonly employed in the industry. The next table summarizes the recent cost history for EC&E. The table shows nominal overall growth over the period, with 2022 costs on a track to parallel those of 2020 after 2021's costs incurred in the period following the DPA announcement in July 2020.

EC&E Costs

Year	Budget		Actual			Variance	
	Amount	Change[1]	Amount	Change[1]	ComEd%	$	%
2019	$3,895,770	-	$4,154,664	-	19.8%	$258,894	6.6%
2020	$4,016,289	3.1%	$5,133,454	23.6%	23.3%	$1,117,165	27.8%
2021	$6,862,835	70.9%	$7,161,304	39.5%	22.7%	$298,469	4.3%
2022 [2]	$4,017,826	17.1%	$3,461,933	-3.3%	35.8%	-$555,893	-13.8%

[1] *annualizes 2022 amounts*

[2] *through June*

7. Subject Matter Experts

Exelon has SMEs located throughout its utilities and in the common serving groups of Business Services Company (BSC). This wholly-owned Exelon subsidiary provides leadership and support services across all Exelon business operations. This group of utility and BSC SMEs have a broad set of responsibilities for activities in their assigned areas of compliance risk (as listed in the 2015 program document):

- Participate in annual risk assessments
- Develop mitigation procedures to ensure compliance
- Implement, support and track the mitigating procedures.
- Perform at least triennial self-assessments
- Provide notification of material changes to regulations and their impacts semi-annually

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[2] ComEd's comments on a draft of this report noted that the CC&EO position has been filed by a permanent hire operating as Exelon Vice President, Deputy General Counsel, Chief Compliance & Ethics Officer. The position continues to report to the EVP CA&R.

- Create and track metrics and report them quarterly
- Coordinate Awareness Communication activities with the Compliance Office
- Recommend areas to address in periodic communications
- Report on compliance implementation activity status as requested
- Perform investigations into allegations of non-compliance
- Participate as requested in EAS activities
- Participate in mitigation oversight reviews
- Notify Legal or EC&E about enforcement authority request for information or examination
- Create, store, preserve, and dispose of compliance activity records
- Actively communicate reporting mechanisms available to raise compliance questions or potential non-compliant conditions without fear of retaliation.

The team of SMEs covers all identified compliance areas and comprises a fairly senior group with experience and responsibility in the operational areas corresponding to those compliance areas. The next table shows the composition of this group. A moderate number had multiple compliance area assignments. For example, the four ComEd assignments are filled by two individuals each assigned to two areas. ComEd's Senior Manager, Regulatory Affairs & Compliance Manager, and a ComEd Senior Regulatory Specialist have those assignments. The asterisks in the table reflect assignments vacant at the time of ComEd's provision of the information.

SME Assignments

Category	SMEs	Compliance Areas		Position Levels	Years in Position	
		No.	Scope		Range	Avg.
Employment	6	6	Benefits, Labor Relations, Reporting,	Managers and Directors	0.8-3.4	1.9
Enterprise-wide & Finance	16	15*	Environmental, FERC Conduct, FCPA, OSHA, Privacy, Records, SOX, Securities, TCPA, Cyber, Intellectual Property	Managers, Directors, VPs, Associate General Counsel	0.1 - 11.2	5.1
Government	3	3	Antitrust, Campaign Finance, PACS, Lobbying, Gov't. Activity, Interaction with Public Officials	Senior VP and Associate General Counsel	.1 - 1.7	0.6
ComEd Utilities	4	4	ICC Rules, Regulations, Orders and State Code of Conduct	Sr. Reg. Affairs Mgr. & Sr. Reg. Specialist	0.2 - 6.08	3.2
Remaining Utilities	1 assigned to NERC Reliability and CIP, remaining 33 (presumably the other operating companies, but data redacted)					
Gas Utilities	Apparently 7, but data largely redacted					
Miscellaneous	1	0*	FCC Licenses; Utility credit FCRA letters; SWIFT			

8. EC&E 2023 Responsibilities and Priorities

EC&E has listed its significant ongoing responsibilities for 2023 as follows, frequently citing collaboration with other entities and business unit personnel:

- Completion of the annual compliance risk assessment
- Oversight and support for political compliance, including implementation of the four interactions with public officials policies
- Collaborating with Legal, CISS, IT, and business teams on cybersecurity

- Support and legal guidance for Exelon's NERC compliance program
- Oversight of records management and information protection compliance
- Annual review of COBC and political compliance policies
- Ownership and oversight of ethics investigations process and enforcement of Exelon's COBC
- Ownership and execution of annual compliance and ethics training and conflict of interest certification process
- Oversight and support of compliance regarding privacy and security of personal and payment card data
- Monitoring and oversight of business-managed compliance activities, including tracking of significant compliance incidents
- Reporting on compliance and ethics issues and activities to senior management, Audit & Risk Committee, utility boards, and through filing of annual report with the ICC
- Supporting responses to regulatory inquiries and audits relating to compliance and ethics matters
- Guidance and support for management and employees on issues relating to compliance and ethics.

New projects or initiatives planned for 2023 include:
- Strengthening Role-Based Compliance Training
  - Compile and prioritize training needs identified through risk assessment
  - Identify owners and timetables for prioritized compliance training and barriers to implementation; increased automation of role-based training management
  - Identify a business owner for LMS (Exelon's "Learning management System" training platform for managing and offering electronic access to employee training) and that owner's responsibilities
  - Develop LMS political compliance training for those not requiring live training or joining teams between live training cycles
  - Confirm that BSC IT has a qualified LMS technical administrator trained to replace the departing incumbent
- Expanding and Improving Compliance-Related Communications
  - Develop format and cadence for communications to employees and managers regarding compliance and control issues
  - Consider communications regarding COBC incidents, sanctions, and insights from significant compliance incidents
  - Strengthen and expand reference materials available through the EC&E intranet site
  - Continue to communicate importance of transition planning and knowledge transfer for employees with compliance responsibilities, and to share the knowledge transfer template
- Continuing to Enhance Exelon's Culture of Compliance
  - Analyzing Employee Engagement Survey data ethics questions to identify opportunities for follow-up and improvement

- o Strengthening the exit interview process to ensure that questions cover compliance and ethics topics; establish a more formal process for escalating information and providing relevant insights
- o Support expansion of culture initiatives to additional business units based on best practices identified
- o Expand library of ethics scenarios used ethics discussions at ComEd
- o Expand "tone from the top" communications
- Improving Anti-Fraud Training and Controls in collaboration with EAS
  - o Update anti-fraud training for business teams and EAS staff
  - o Conduct pilot program to monitor selected vendors for red flags of fraud
- Enhancing Investigation Processes
  - o Regularly providing CCO/EVP CA&R updates and review of pending investigations to prioritize resources and address emerging issues
- Updating Compliance Policies
  - o Complete revisions to LE-AC-20 (corporate compliance program), LE-AC-204 (reporting violations of the COBC), LE-AC-205 (investigating and resolving COBC violations), LE-AC-31 (integrated privacy program), RC-AC-706 (FERC interlock procedure)
  - o Conduct annual COBC and related policies review required under CEJA
  - o Complete an annual review of policies on interactions with public officials
- Enhancing Privacy, Data Security, and Cybersecurity Practices
  - o Support ongoing work by Legal, CISS, Supply, and Utility Operations to strengthen vendor vetting, data sharing, and dependencies
  - o Reinstitute Privacy Steering Committee (accomplished in February of 2023)
  - o Begin use of OneTrust solution for tracking personal information locations and uses on Exelon networks
  - o Serve as business lead for IT project to remediate network file shares
  - o Support planned cross-functional review of recent data exfiltration incidents
- Miscellaneous Initiatives
  - o Begin tracking compliance risk assessment recommendations in the ServiceNOW Governance Risk & Compliance tool
  - o Ensure creation of design process for scrubbing existing vendor list to identify 501(c)(4) and (6) entities, to support more automated political contribution reporting)
  - o Contribute to Management Model revitalization project to reflect compliance considerations
  - o Encourage more work outside functional silos, and strengthen Exelon's compliance and ethics team collaboration, communication, and cross-training
  - o Support utility regulatory groups reviewing processes and tools for tracking and managing their commitments
  - o Expand professional development opportunities for EC&E staff

9. *Other Organizations with Substantial Compliance Roles*

Several specialized compliance programs operate outside EC&E, operating under their own governance, oversight, and management of compliance risks. They address NERC, environmental,

and safety compliance. C&E tracks the identity and organizational affiliation of SMEs responsible for identified compliance risks. Another organization addresses NERC CIP cybersecurity compliance risk. An Exelon IT NERC CIP Compliance (INCC) Quality Assurance Program evaluates compliance with NERC's CIP Reliability Standards. Programs at both EU CMT and INCC track and assess new or changed programs and processes to address coming new or revised NERC standards. These efforts seek to identify and address risks created by standards changes before they become effective.

Management does not plan any changes in roles and responsibilities for planning, execution, and results evaluation of compliance risk assessments. Those who participate in risk assessment domain workshops however do change yearly to reflect areas of particular focus established for the workshops. Management plans to replace current MS Excel spreadsheet tracking of recommendations resulting from the workshops with a ServiceNOW Governance Risk & Compliance tool early in 2023.

Exelon's BSC Transmission Strategy group has responsibility for NERC compliance, which falls directly under the Transmission Strategy group's Vice President, NERC Compliance & Security. A NERC Steering Committee meets monthly to discuss NERC compliance activities; EC&E and EAS representatives attend those meetings. The NERC compliance program also includes an annual compliance conference and a "NERC Hall of Fame" recognizing compliance award winners.

The Vice President, Training, Safety, and Environmental has responsibility for the Environmental and Safety compliance programs. The Safety compliance program falls under Exelon's Corporate Safety, Training & Environmental organization, supported by Legal department personnel with safety expertise. That organization collects metrics and coordinates Exelon's Safety Peer Group, although ComEd, like the other utility operating companies, remains accountable for governance and execution of its own safety program activities. Exelon Corporate Safety provides overall safety governance among Exelon's business operations and supports operating company safety performance and compliance efforts.

Other Exelon departments have responsibility for managing regulatory compliance risks, for example:
- Legal Governance and Shareholder Services management of insider trading compliance
- External Financial Reporting management of SEC disclosure requirements and FERC accounting reporting
- Regulatory department and Legal personnel embedded in the operating companies have responsibility for managing compliance with state utility regulatory authority requirements.

10. Emerging Risk Steering Committee

Exelon established a cross-functional Emerging Risk Steering Committee in 2022 to support management's identification and response to new and evolving risks. It seeks to do so by "reviewing, assessing, and escalating relevant trends, events, and information to business teams and Executive Leadership." This committee operates through periodic meetings that seek to

identify and prioritize emerging risks, assess the attention they currently receive in the business units affected, share information about them across Exelon, and coordinate plans and efforts to address them further, where appropriate.

The committee has met in March and November of 2022, with its first 2023 meeting anticipated to come in the spring.[3] Emerging risks comprise those "previously unrecognized risks, or existing risks with new context or changes in condition that materially increase their probability or severity." The committee has membership from across Exelon in the numbers shown below:

- ERM (3)
- EAS (3)
- Corp. Strategy (3)
- Corp. Compliance (1)
- Corp Operations (3
- Corp. Finance (2)
- BCS Supply (1)
- CISS (2)
- ComEd (3)
- PECO (2)
- BGE (3)
- PHI (4)

The November 2022 meeting reviewed a list of emerging risks prepared by respected outside sources and generated a list comparing them with those identified at the first 2022 meeting. The meeting documentation described the risks, with an emerging risk register listing each, identifying its potential impacts, listing their owners (ranging from one to five different functional groups), and listing mitigative actions. The next table summarizes the emerging risks identified at the first 2022 committee meeting and changes proposed at the November 2022 meeting. The table bolds those risks found to have between the meetings matured past "emerging" to "short-term." The risks reflect typical categories of enterprise risk, generally not addressing compliance and ethics directly.

Emerging Exelon Enterprise Risks Identified

Q1 2022	Q4 2022 (proposed)
	Energy transition
Sustained high inflation	Sustained high inflation
Sharp rise in energy prices	Sustained higher energy prices
Conflict in Ukraine	Escalation of conflict in Europe
3rd party risk management	3rd party risk management (Cyber, Supply)
Separation (Constellation) risk	**Separation (Constellation) risk**
Increased corporate tax rate	**Increased corporate tax rate**
Investor & ESG stakeholder activism	Pressure for expanded ESG commitments
New COVID-19 spikes	**New COVID-19 spikes**

11. Outside Compliance and Ethics Resources

Exelon uses a number of contracted resources in managing and operating its compliance and ethics activities:

- *NavEx Global* operates the Ethics Helpline and toll-free hotline
- *LRN* provides the platform that delivers mandatory COBC training content, integrated with Exelon's Learning Management System (LMS) and the platform for providing annual employee and officer COBC certifications and attestations

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[3] ComEd's comments on a draft of this report noted that the meeting occurred in May 2023.

- *Audit Board* provides assistance in completing Payment Card Industry Data Security Standard (PCI DSS) self-assessment questionnaires for ComEd and the other subsidiaries that accept customer payments by credit card
- *OneTrust SaaS* provides a solution now underway for implementing privacy data mapping, with project integration services from *Deloitte*
- *QualiTest* provided design, testing and implementation services for the Compliance and Ethics Resource Tracker (ExCERT) database
- *InfoSys* has provided Management Model staff augmentation personnel
- *KPMG* provides design, test, and implement services for the ServiceNOW platform in connection with Public Official Request Tracker - Supplier Certification (PORT-SC) tracking.

12. ComEd Risk Management Committee

As do other Exelon utility operations, ComEd has its own Risk Management Committee, which operates under a charter outlining its purpose, membership, and responsibilities. It oversees ComEd's processes for risk identification, assessment, measurement, and management pursuant to Exelon policies, programs, strategies, and risk appetite. It also has the responsibility to monitor and review mitigation strategies for top Enterprise risks as they apply to ComEd. Membership includes the Exelon Executive Vice President, Audit, Compliance, and Risk and Exelon's Enterprise Risk Management Director and its Manager. ComEd's CEO and COO serve as members, along with a broad cross section of ComEd executives (12 in number). Invited attendees include seven Exelon executives as well, including those responsible for operations, audit, supply, diversity, and safety, training, and environmental.

The Committee's charter requires at least semi-annual, but anticipates quarterly meetings. It generally met monthly until 2022 when meeting frequency changed to quarterly. It operated in 2022 with reasonably detailed information addressing recurring and special topics.

13. Enterprise Risk Management - - Key Risk Indicators

a. ERM Structure

Leadership discontinued the use of the Exelon Risk Management Committee, which last met in April 2021. In consultation with the members, the Exelon CEO disbanded it in light of well-functioning risk management committees at each operating company, member participation in other groups and meetings that already addressed much of the Risk Management Committee's scope participants; and the ability to address the remaining committee responsibility (CEO review and approval of capital projects over $100,000) more efficiently through existing capital control processes. Risk Management Committee membership at its termination consisted of Exelon's:

- CEO
- Sr EVP and CEO Exelon Utilities
- CFO
- EVP, Government, Regulatory and Public Policy
- Sr EVP and CEO Constellation
- EVP Corporate Operations

- EVP CA&R
- EVP and Chief Generation Officer
- EVP and General Counsel
- SVP, EAS
- SVP, Investor Relations.

ComEd has its own Risk Management Committee. Its meetings since 2020 have included ComEd's:
- Chief Executive Officer (Chairman)
- EVP, President and Chief Operating Officer (Co- Vice Chairman)
- SVP, Chief Financial Officer and Treasurer (Co- Vice Chairman)
- SVP, Regulatory and Energy Policy and General Counsel
- SVP, Governmental and External Affairs
- SVP, Technical Services
- SVP, Distribution Operations
- SVP, Customer Operations and Chief Customer Officer
- SVP, Transmission and Substation
- VP, Human Resources
- VP, Communications
- VP, Information Technology
- Director, Enterprise Risk Management.

The other operating companies include all their operating vice presidents as members of their Risk Management Committees. ComEd as a larger company has more vice presidents and reasons that participation by its larger number of vice presidents would make for an unduly large committee.

b. Enterprise Risk Management Key Risk Indicators

The EVP CA&R provides top-level direction for compliance and ethics (under EC&E), audit activities (under EAS - - addressed below), and Enterprise Risk Management (ERM). The organizations primarily responsible for these three areas coordinate through regular interaction and through common participation in the risk assessment activities central to each of their roles. Exelon's ERM Program employs Key Risk Indicators (KRIs). We inquired into their connection with compliance and ethics. EC&E and EAS do not employ KRIs.

Leadership directed a review of Exelon's enterprise risks following the February 2022 Constellation separation, which produced a major narrowing and realignment of corporate risks, given the differences between the electric transmission and distribution and the competitive generation and energy businesses. With completion of an updating of Exelon's post-Constellation enterprise risks register, ERM began to define KRIs corresponding to those revised risks, targeting completion for summer 2023. The process has identified 17 top Exelon enterprise risks. It identifies two of them as primarily strategic - - legislative and regulatory change and customer affordability and access. Three comprise principally financial risks - - cost management, cost recovery, and capital planning and execution.

Two of the nine top enterprise risks in the third and final classification (risks primarily operational in nature) have a more clear connection to compliance and ethics - - Misconduct, Compliance, or Reporting Error and Talent Management. These two areas have generated three turnover-related KRIs that relate to issues identified through the compliance and ethics risk assessment process - - overall turnover rate, trend in turnover rates in groups with substantial compliance and ethics or controls responsibilities, and new hire retention rate. Another KRI measures the percentage of total ethics concerns reported anonymously. Another measures the total number of public official interactions reported. The ERM KRIs largely address risks not closely related to compliance and ethics risks, but those that do show consistency.

14. Exelon's Management Model

Exelon employs what it terms Management Models to describe in a systematic way "the work we do every day." The two units most significant to ComEd (Utilities, of which it is one and BCS, which provides utility operations with a broad range of services) each have handbooks addressing model elements. A Who We Are component provides statements of vision, goals, stakeholders, values, strategic focus areas, and management components intended to provide a framework for conduct of the business of the unit. A How We Drive Performance section addresses the business planning process. A What We Do component addresses core work functions, and a How We Measure and Improve component addressed management controls.

The Exelon Utilities Management Model Handbook addresses a broad array of performance areas important to utility business success, focusing particularly on customer experience and operations matters. Its more than 100 pages make frequent reference to compliance, addressing it largely in terms of the legal and regulatory standards to which utility operations must conform. The separate Handbook for Exelon Business Services (BCS) structured similarly and extending to some 60 pages contains many references to the responsibilities of numerous units in BCS for compliance with internal and external requirements. The current version dates from 2015, thus reflecting an Exelon Legal department's role that no longer applies. Exelon began in the second quarter of 2022 a multi-phase project (in its first phase as 2022 ended) to review and update the Management Model following the separation of its generation and commercial power business operations.

D. Conclusions

1. Exelon has developed and it implements, with meaningful ComEd participation, a compliance and ethics program that soundly addresses the range of needs required to create suitable expectations and deliver the performance necessary to meeting them.

The program addresses all elements required for a successful program. It provides for regular assessment of compliance risk, it applies means for assessing their significance, and it considers the likelihood of occurrence of those risks. It pays particular attention to emerging risks, and it applies lessons learned in designing mitigation methods. It operates under clear methods with support from appropriate tools and systems, including a number based on applications from leading outside providers in the industry. The program seeks to identify and meet training and development needs. It provides for prompt investigation of concerns and allegations and for answering questions or addressing employee compliance and ethics concerns not necessarily connected to specific allegations of misconduct. Later chapters of this report provide more detailed

analyses of the activities involved in key areas, such setting the tone at the top, risk assessment, methods for securing compliant performance and behaviors, communications and training, investigation and resolution of alleged violations and concerns, and related financial accounting and controls.

2. **Policy and procedure documentation updating has lagged until very recently, producing a situation where technically still applicable documents varied from actual performance methods and activities.** *(See Recommendation #1)*

It is surprising to find common understanding and acceptance of means and methods, accountabilities and responsibilities, and required steps where actual practice diverges from what policies and procedures require. Nevertheless, that is what we found in our examination. We found recognition among those with whom we interacted of the failure of policy and procedure documentation to reflect actual ways of proceeding, but without any apparent lack of understanding about the content of those actual ways or of the fact that they represented the expected means of acting. Moreover, those actual ways generally conformed to or exceeded typical industry practice, with some moderate exceptions addressed in the recommendations of this and following chapters.

Despite the clarity and overall appropriateness of actually employed means and methods, accountabilities and responsibilities, and required steps, however, policies and procedures need to be both appropriate per se and consistent with actual practice. Personnel turnover, for example, diminishes the continuity it takes to make effective an environment where actual practice diverges from governing documents. Exelon itself has had substantial experience with the knowledge gaps such transitions can produce, particularly following the separation of Constellation in early 2022. Exelon has also recently experienced violation examinations that have engaged the highest management levels and brought on criminal proceedings. These circumstances can produce high-stakes, extremely contested resolution processes - - circumstances that underscore the importance of demonstrating "by the book" conformity of actions to established procedures.

Inconsistency between the book and practice can become particularly problematic in such circumstances. Even more importantly, evident and continuing lag in updating policy and procedure documents tends to undermine the notion that compliance and ethics have a high degree of importance and form a central aspect of an entity's culture. Certainly other indicia of commitment have more importance, but diligence in completing updating of compliance and ethics policies and procedures and ensuring that actual practice conforms to them have merit. We emphasize that (again, apart from some moderate improvement recommendations) the need here does not lie in conforming practice to the documents, but the documents to the practices.

3. **Enhanced further by recent changes, Exelon has produced for ComEd an accountable, empowered, compliance organization with an appropriate scope of responsibilities and strong staffing.**

Exelon moved reporting from under Legal to the Exelon CEO and also elevated the top compliance and ethics position to the executive vice president level. Somewhat more recently, bringing the enterprise risk function under this EVP CA&R facilitated coordination among the three groups. The EVP CA&R and CC&EO have an independent reporting relationship with the Exelon Board

of Directors - - historically and currently through the board's Audit and Risk Committee. The positions (with the EVP provisionally filling the role of the CC&EO, who retired at the end of 2022) have clear responsibilities and authorities. The current EVP, the recently retired CC&EO, and the three principal EC&E leaders have very substantial experience that extends not only to legal training, but to substantial tenures in their Exelon EC&E positions. The EVP is newer to Exelon, but brings exceptional experience in compliance generally, and particularly in compliance enforcement.

We did find one gap, which Conclusion #9 and Recommendation #1 of this report's Chapter Seven: *Finance, Accounting, and Control Environment* addresses. That chapter details reliance the CC&EO had placed on the SrVP-EAS (the chief audit officer, titled the Senior Vice President, Exelon Audit Services) role with respect to annually reviewing internal controls under Section 604(d)(2)(D). The SrVP-EAS reports to the EVP CA&R, at least temporarily closing that gap for as long as the latter's designation as SrVP-EAS continues

4. Exelon effectively brings local resources into important compliance and ethics roles, broadening and deepening the organization's understanding of and dealing with compliance risks and potential violations.

Exelon's compliance program makes effective use of personnel across the company's footprint, assembling, training, and employing a substantial group of SMEs to engage regularly in compliance risk assessment, in mitigation measure planning and execution, in investigation of potential violations, and in providing for their coworkers trusted local sources of information, consultation, and reporting regarding compliance and ethics issues and matters. The group of SMEs has substantial ComEd employee representation.

E. Recommendations

1. Exercise more rigor in ensuring that compliance and ethics policies and procedures undergo regular review and updating; ensure that their requirements and actual practice remain consistent. (*See Conclusion #2*)

EC&E has recently brought outdated policy and procedure documentation into conformity with actual practices - - practices that we have found generally strong and effective. It is important that the lag that formerly existed not be repeated. Personnel turnover and the potential for high-consequence compliance and ethics incidents or behaviors both indicate the need for clarity in what is required and expected and conformity of practice to those requirements and expectations. Outdated policies and procedures threaten clarity and conformity. They can also produce an unintended perception that policies not kept up to date are somehow not important enough to warrant attention to details like late updating or content not followed in practice.

Annual reviews of compliance and ethics policies designated as key and regular reviews of others should occur. The risk assessment workshops offer one forum for doing so on a reasonably timely and robust basis. Effective date change and any required amendment shown appropriate by the review process should follow imminently.

Chapter Three: Board and Top Leadership Direction

A. Chapter Summary

This chapter addresses top ComEd and Exelon executive and board of director roles and activities designed to set a "tone at the top" that demonstrates a strong and continuing culture of compliance that shows a full commitment to compliant and ethical behavior, assigns accountability for ensuring satisfaction of that commitment, and provides oversight and direction sufficient to ensure success in executing the compliance and ethics program addressed in the preceding chapter.

Adoption and execution of proper board roles comprises an element of first order importance in these regards. Our review of the structure and roles of the boards of ComEd and Exelon found them sound. The Exelon board places primary reliance on its Audit and Risk Committee, while the ComEd board operates in effect as a "committee of the whole" in addressing compliance and ethics. The charters under which they operate give them sufficient authority, independent access to compliance and audit executives, and clear and appropriate roles. Our review of their interaction with management showed substantial attention to compliance and ethics matters, receipt of concise and focused, yet sufficiently detailed information, sufficient meeting frequency, and clear engagement on the matters assigned to them by governing documents.

We found the top executive officers of both Exelon and ComEd appropriately engaged in communicating commitment to and universal accountability for compliant and ethical behavior and accountability for failure to do so. The ComEd CEO directly and regularly engages with utility leadership and broader employee groups to reinforce compliance and ethics commitment and expectations, using real world incidents as a learning model. The ComEd board has similarly engaged directly with employees on such matters. The ComEd board has also been restructured to bring on members with strong credentials in compliance and ethics. Our communications with directors showed them well informed about compliance and ethics matters.

The EVP CA&R champions a commitment to compliant and ethical behaviors visibly and directly. His particularly strong and long career before joining Exelon in 2020 reinforces the company's commitment to such behavior. He has and has regularly used direct and independent access to the boards of directors to provide detailed, yet well summarized information about compliance and ethics risks, needs for improvement in managing them, existence of allegations and concerns and progress in pursuing and resolving them, and in providing awareness of concerns that industry and company events and circumstances show as emerging risks. The EVP CA&R's position and relationship with the rest of Exelon's executive structure gives this senior officer sufficient independence, visibility, and empowerment.

However, we did observe one matter that produces some uncertainty about the relationship with the remainder of the executive structure and incumbents. Until its retirement some time ago, an Ethics and Compliance Steering Committee that included a number of designated Exelon executives provided compliance and ethics oversight in a manner circumscribed by its charter. That committee no longer exists, and compliance program documentation now assigns generally and without clear limits or guidance an oversight role to "executive management." The

responsibilities, accountabilities, and (perhaps most importantly) limits on the oversight role require more definition.

B. Background

Preceding Chapter Two: *Compliance and Ethics Program, Organization, and Resources* addressed the creation of compliance and ethics framework - - which comprise the work whose completion, sustenance, and maintenance comprise the foundation of board of directors and senior executive exercise of leadership and direction. This chapter addresses a set of activities generally recognized as setting the "tone at the top." It examines how the Exelon and ComEd boards of directors define and exercise a governance role with respect to compliance and ethics. It addresses how the chief Exelon and ComEd officers communicate compliance and ethics values transparently and recurringly and through what channels and platforms. It also supplements the previous chapter's treatment of the EC&E organization by addressing the empowerment, background, and visibility of the top compliance and ethics officer (the EVP CA&R).

Other chapters of this report address additional factors that contribute to creating a proper tone at the top. See, for example, Chapter Five: *Securing Compliant and Ethical Performance and Behaviors*, which treats a number of them, including, for example, codes of business conduct for employees and suppliers, onboarding training, performance management and its relationship to compensation, and employee engagement surveys and exit interview treatment of compliance and ethics requirements, expectations, issues, and concerns. The treatment of investigations and discipline described in Chapter Six: *Reporting and Pursuit of Potential Violations* has substantial significance in setting an effective tone as well. Thus, while this chapter focuses primarily on roles and activities at the very top of the ComEd and Exelon hierarchies, the degree of success in areas addressed in those other chapters also serves as a measure of how effective the tone set has proven.

C. Findings

1. Exelon Board Audit Committee Role

The charter of the Exelon board's Audit Committee in May 2019, when management learned of the pendency of the federal investigation did not make reference to the compliance and ethics program. Amended in July 2018, it addressed compliance and ethics matters more generally, calling for review of policies and procedures intended to prevent illegal payments, conflicts of interest, or other questionable practices and for committee consideration of the results of monitoring of compliance with the COBC, particularly by officers and directors. The charter at that time also gave the Audit Committee responsibility for establishing procedures governing receipt, retention, and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and for confidential, anonymous submission of concerns regarding questionable accounting or auditing matters. The charter also tasked the Audit Committee with overseeing policies and procedures for compliance with applicable laws and regulations and related risk assessments. A September 25, 2019 revision to the Exelon board's Audit Committee charter did not make revisions to provisions addressing compliance and ethics matters.

A February 2022 consolidation brought together formerly separate Exelon Board of Director Audit and Risk Committees, combining them into the Audit and Risk Committee (Exelon Board's A&R

Committee). The combined committee's charter (approved July 26, 2022) calls for membership by three or more board-appointed directors who meet both standards of independence applicable to all board members and additional ones applicable to members of this committee. The charter requires the Exelon Board A&R Committee to meet at least quarterly. The committee has authority to retain, compensate, and oversee independent advisors and to call for meetings with company officers, employees, outside counsel, and the independent auditor. Management reports no engagement of outside advisors by the committee to date.

The Exelon Board A&R Committee's purpose statement lists the following subjects on which it assists the full board in exercising oversight:
- Independent auditor independence, appointment, retention, compensation, qualifications, and performance
- Financial statement integrity
- Accounting and financial reporting processes and related internal control systems
- Performance of the independent audit function
- Enterprise risk management and compliance and ethics programs
- Cyber risk and security matters to the extent incorporated into Securities and Exchange Commission reporting.

The Exelon Board A&R Committee charter provides that the independent auditor shall report directly to the committee, which must preapprove all auditing and permitted non-audit services. The committee also has the responsibility to review with the independent auditor and management the adequacy of internal controls over financial reporting. The Exelon Board A&R Committee charter also provides a reasonably detailed and typical description of roles with respect to financial accounting, reporting, and controls. The charter also contains typical scope and detail with respect to direction and oversight of matters within the scope of the Chief Audit Executive's role, including appointment, replacement, dismissal, work planning, internal audit risk assessment, staffing, organization, budget, independence, and performance.

The Exelon Board A&R Committee also has responsibility for overseeing strategies developed by management as part of an enterprise-wide risk management program designed to identify, measure, prioritize, monitor, and respond to risks. The committee's enterprise risk management role extends also to evaluating compliance with risk management policies and receiving risk reports from the senior risk officer and other members of business and functional unit management as appropriate.

More specifically with respect to the Ethics and Compliance Program, the Exelon Board A&R Committee charter calls for it to review compliance program and COBC operations, policies and procedures and to assess its effectiveness periodically. The charter also calls for committee review of policies and procedures seeking to prevent illegal payments, conflicts of interest, or other questionable practices and to consider the results of COBC compliance monitoring, particularly by officers and directors. The charter also gives the Exelon Board A&R Committee responsibility for overseeing compliance laws and regulations and related risk assessments and for reviewing compliance incidents and reports relating to interactions with public officials.

The committee also has the responsibility to confirm that no unjustified restrictions or limitations constrain the compliance function. The committee also has the responsibility to establish procedures for receiving, retaining, and treating complaints addressing accounting, internal accounting controls or auditing matters, and for providing means for confidential, anonymous submission of employee concerns regarding accounting or auditing matters. The charter also makes the Exelon Board A&R Committee responsible for overseeing policies and procedures for compliance with laws and regulations. The committee also reviews with the Chief Legal Officer legal matters with potentially significant impact on financial statements and inquiries or reports received from regulatory or governmental agencies.

We reviewed with EC&E leadership the interaction that has occurred with the Exelon Board A&R Committee. We also reviewed a sample of 2019 through 2022 committee minutes. We found them reflective of the interaction as described. The meetings generally included pre-distribution of data summarizing incidents of potential violation of the COBC, supplemented by more extensive reports and updates starting in mid-2020, with the creation of the EVP C&A position in July 2020 and as Exelon implemented changes in its compliance and ethics program following the DPA.

Apart from reviewing the reports on potential violations, legal aspects of events surrounding terminations comprised a principal ethics focus of the Exelon Board's Audit Committee through the first half of 2019. This report's Appendix One: *Exelon Audit and Risk Committee C&E Notes* summarizes the available information about the committee' consideration of compliance and ethics matters and issues.

2. *Executive Compliance and Ethics "Oversight"*

The 2015 Program Document described in the preceding chapter of this report document had given to an Ethics and Compliance Steering Committee an oversight role that included annual reviews of the program. That document did not change; however, the 2023 Program Document noted its previous "retirement."

A group of executives, selected based on expertise and functional responsibilities served on the Ethics and Compliance Steering Committee. The next table lists the 2019 members.

2019 Exelon Compliance Steering Committee Membership

Executive VP, Chief Enterprise Risk Officer	SrVP, Reg. & Gen. Counsel, Generation
VP & Deputy GC, CC&EO (Chair)	ComEd SrVP, Reg. & Energy Policy & Gen. Counsel
VP, Supply Corporate Sourcing	SrVP, Nuclear Operations Support
SrVP & Chief HR Officer, Exelon	Assistant Gen. Counsel, Compliance
SrVP, Legal & Regulatory Strategy	SrVP, Gen. Counsel & Corp. Secretary
VP, Corporate Environmental Strategy	VP & Chief Security Officer
VP, Gen. Counsel, BGE	Sr. VP, EAS
SrVP & Gen. Counsel, Constellation	SrVP & Corporate Controller, Exelon
VP & Gen. Counsel, PECO	VP & Gen. Counsel, PHI
SrVP, State Gov't. & Reg. Affairs	VP NERC Compliance & Security
VP, IT Enterprise Wide Solutions	Director, Internal Audit
Communications – as determined	

The Ethics and Compliance Steering Committee operated at the time of its retirement under a charter approved August 21, 2018 and in effect as of May 2019. The two-page charter designates its role as providing governance and oversight for the compliance and ethics program, giving direction to its scope and effectiveness in "meeting Exelon's commitment to comply with all applicable laws and regulations, and conduct its business using the highest standards of integrity." That charter called for at least quarterly meetings and required members unable to attend to send a delegate. The charter called for pre-meeting submission of agendas and materials slated for meeting discussion. The charter designated the "principal compliance officer of Exelon" as chair and the Exelon General Counsel the committee's executive sponsor. Membership included the executives (or general counsel or senior attorneys) from all major Exelon business units and functional areas as designated by unit or area leadership.

Specific Steering Committee responsibilities included:
- Providing corporate compliance governance and oversight, of risk assessment completion, mitigation plan implementation, tracking metrics, and disseminating training and awareness communications
- Providing functional oversight for designated compliance risk areas (*e.g.,* antitrust, Foreign Corrupt Practices Act, fraud, and intellectual property infringement
- Supporting EC&E as needed
- Annually reviewing designated risk areas and the ranking assigned to risks
- Recommending adjustments to rankings for changes in law, regulations or business
- Identifying emerging compliance and fraud risks; assuring SME assignment to them
- Actively monitoring SME-reported metrics for trends, common causes, and solutions
- Annually reviewing designated risk area compliance plan scope and effectiveness
- Ensuring sufficiency of SME-prepared risk area management plans in consultation with other groups plans, to manage, monitor, and mitigate Exelon's most significant legal, regulatory, and compliance risks
- Reviewing the three-year training plan to ensure effective compliance program support
- Reviewing annual COBC training and certification and follow-up actions identified
- Reviewing periodic results of internal investigations; providing input for broad employee communication (*e.g.*, through an Ethics bulletin) identifying issues, noting completion of corrective actions, and providing education about company policies
- Reviewing in collaboration with the "Fraud Community of Practice," (described below) anti-fraud program updates and providing anti-fraud enhancements and initiatives
- Reviewing the annual compliance communication plan and recommending topics for discussion to reinforce a culture of compliance
- Annually reviewing Steering Committee charter and performance.

The 2023 Program Document describes program oversight as shared among the Board committee, the CC&EO, EC&E, and "executive management." "Oversight" as the Exelon Management Model uses the term comprises accountability for critical monitoring to ensure production of desired program outcomes, including reviews of work products, engagement in high-level resource planning, and review of performance metrics and other data bearing on achievement of intended outcomes and intent.

3. EC&E Quarterly Reports to the Exelon Board Audit Committee

EC&E has provided regular reports to the Exelon Board's A&R Committee. We reviewed samples of those provided, starting with the report covering the fourth quarter of 2018. This report's Appendix Two: *EC&E Reports to Audit and Risk Committee* summarizes their content.

4. Efforts to Enhance the "Tone at the Top"

We inquired into board and leadership means and methods for establishing a sound "tone at the top" with respect to compliance and ethics. Management described a series of ten actions it considers relevant to setting such a tone.

First, an Exelon-level board and leadership structure change has occurred. It came through Exelon's March 2020 creation of the new EVP C&A (later expanded to CA&R) position reporting to Exelon's CEO and to the Chair of Exelon's Audit Committee. The Exelon Board's Audit Committee became in February 2022 the Audit and Risk (A&R) Committee upon combination of the formerly separate Audit Committee and Risk Committee. Creating the new EVP position sought to enhance visibility and autonomy of the EC&E and Audit functions, formerly a part of the Exelon Legal and Finance departments.

The EVP CA&R serves on Exelon's Executive Committee, which currently has fifteen members. Exelon's CEO and its President and COO serve on this committee, as do Exelon's executive vice presidents (the CFO, the General Counsel, the COO of Exelon Business Services Company, and the top officers for Utility Operations, Compliance, Audit & Risk, and Human Resources), the senior vice presidents of Audit Services, Strategy & Sustainability, and Corporate Affairs & Communications, and the top officer at each of the four utility operating companies (ComEd, BGE, PECO, and PHI).

The EVP CA&R also serves on the Exelon committee that reviews significant charitable contributions (described later in this chapter). Exelon created in 2005 this Corporate Citizenship Review Committee (CCRC). The CCRC does not operate under a formal charter, but Exelon's charitable contributions guidelines describe its duties. The CEOs of Exelon and the operating company oversee operation of the committee, which has nine members and meets quarterly. The CCRC meetings employ agendas, which typically summarize details of proposed contributions, report on merger commitments, and provide a year-to-date Giving Report. A review of 2021 and 2022 meeting materials showed consistently structured summaries of proposed contributions. These summaries identified the organization involved and its purposes and operations, the Exelon and ComEd amounts involved and a three-year contribution history, benefits to the community and support for a commitment to equity, value to Exelon and relationship to a company "Strategic Focus Area," means to engage Exelon employees, and Exelon employee membership on the organization's board.

Second and Third, the ComEd board and corporate leadership changed. A new CEO came to ComEd in November 2021, bringing a history of leadership at New York State and City entities and in the utility, energy, and energy efficiency businesses. ComEd also made significant changes to the composition of its board of directors, with five members departing since early 2021. The board now has six members, three of them ComEd and Exelon executives (Exelon's CEO and its COO and ComEd's CEO) and three of them new independent directors:

- A former Executive Inspector General for the State of Illinois, senior prosecutor in the Chicago U.S. Attorney's Office, and law firm partner handling corporate investigations
- President and CEO of a nonprofit enterprise serving low-income and working poor families across Chicago
- Founder and CEO of a Chicago-based engineering management and construction firm.

**Fourth**, ComEd has developed under senior utility executive leadership and in conjunction with EC&E a series of eight team-discussion scenarios designed to improve recognition of and confidence in addressing recurring ethics issues.[4] Leadership plans to continue them. The scenarios used have drawn on actual ComEd and other Exelon incidents and employ discussion guides and reference resources. Design of the scenarios seeks to assist executives to effectively lead conversations about the issues and compliance and ethics circumstances presented. ComEd requires that each of its vice presidents deliver scenario-based training at least quarterly to non-represented employees, and, with the assistance of their senior-level managers, at least twice a year to represented employees. The key performance indicators used to evaluate ComEd executives include delivery of this training.

**Fifth**, a first page of Exelon COBC written message from the Exelon CEO and a CEO video introducing annual ethics training seek to reinforce the importance of ethical practices and COBC adherence.

**Sixth through Tenth**, management described the other actions it cited as material to setting a sound tone at the top as:
- Expanded updates to Exelon board's Audit and Risk Committee on compliance and ethics
- Regular stressing from the new ComEd CEO in meetings with managers and employees of the importance of legal and ethical requirements adherence, including compliance & ethics updates monthly in regular executive leadership meetings and a video message to all ComEd employees recorded July 2022 and emphasizing the importance of ethics commitment and compliance and asking that employees prioritize recently launched annual compliance and ethics training
- A March 2022 half-day meeting for all ComEd senior managers, director-level employees, and executives to address ethics and culture issues in which ComEd's independent director, and the Exelon EVP CA&R participated in a discussion of challenges in building a strong ethical culture and which included scenario-based training on identifying conflicts of interest (with a similar session for mid-level ComEd managers in October 2022)
- A November 2021 training session led by ComEd's COO and involving all ComEd senior-level managers and executives designed to secure understanding the responsibilities that the Exelon's COBC imposes on managers, and demonstrating tactics for strengthening the ethics and control environment
- An October 2021 meeting of the ComEd COO with senior managers and their administrative assistants to review corporate credit card expenditures and emphasize expenditure accountability

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[4] ComEd's comments on a draft of this report state that 14 scenarios now exist.

- The most recent employee engagement survey (which Exelon conducts on a two-year cycle) concluded in October 2022. This year's survey added questions identified by EC&E and Human Resources jointly to provide broader information about company compliance culture. The two groups plan to work together to identify by the end of the first quarter 2023 strengths and improvement opportunities discernible from analysis of responses to the added questions.

Our request for information about key manager meetings in 2021 and 2022 focusing on ethics, control, and integrity identified two of them. A November 2021 meeting introduced new compliance and ethics training modules to ComEd's "key manager leadership group." This group involves the approximately 225 persons holding positions extending from the senior manager level up through ComEd's CEO. The group includes managers and directors operating from both within ComEd directly and at centrally managed Exelon service company dedicated to supporting ComEd's operations specifically (so-called BSC-embedded employees). The meeting talking points that management provided underscored the significance of recent separations of employees, the importance of compliance and ethics, the need for improvement, the expectation of full compliance, and the importance of training to ensure a sound culture and compliance.

The second such ComEd management meeting cited, occurred in March 2022. This half-day meeting addressed compliance and ethics at Exelon and included "conversations" about leadership in ethics and an ethics panel discussion led by ComEd's CEO, an independent ComEd board member, and the EVP CA&R. A 17-page presentation supporting the meeting's conduct:
- Emphasized the importance of compliance and ethics to the company's business
- Observed the responsibility of all to adhere to the Exelon COBC
- Explained a KPI measuring conversations held by executives with employees about compliance and ethics
- Provided a set of fairly detailed scenarios derived from ComEd and Exelon experience to help guide those conversations
- Described a quarterly tracking for executive use in documenting conversations held.

D. Conclusions

1. The Exelon Board's A&R Committee charter gives it sufficient authority with respect to engagement in and oversight of the compliance and ethics program.

The charter of the Exelon Board's A&R Committee calls for periodic committee reviews and effectiveness assessments of compliance program and COBC operations, policies and procedures. The charter specifically addresses its review of policies and procedures seeking to prevent illegal payments, conflicts of interest, or other questionable practices. The charter also gives the committee responsibility for overseeing risk assessments, and for reviewing compliance incidents and reports relating to interactions with public officials, and for establishing complaint and concern receipt and pursuit, including anonymous reporting of employee concerns regarding accounting or auditing matters.

2. Interaction between the Exelon Board's A&R Committee and EC&E has been regular, substantial, and effective.

A review of committee minutes found them consistent with the expected level of interaction and supported by substantial pre-meeting distribution of presentations and compliance and ethics data. EC&E has provided regular reports to the Exelon Board's A&R Committee. They have expanded in content over time, particularly as EC&E changes (*e.g.*, in risk assessment and incident and investigation tracking) have occurred and as management has responded to DPA and internally generated improvement opportunities.

3. **The ComEd board of directors engages substantially and appropriately in Ethics and Compliance matters.**

Interaction between EC&E and the ComEd board has become regular, consistent, and substantial as well, supported by the provision of presentations and data relevant to overseeing program operation. The ComEd board, recently reconstituted, now has a number of members with substantial compliance experience across their professional careers. The board members demonstrated sound familiarity with circumstances that have affected compliance at ComEd, with data on recent experience, and with efforts to promote a culture of compliance. Some ComEd members have directly participated in sessions designed to set an appropriate tone with employees.

4. **A clearly delineated role for Exelon executives in compliance program oversight has been replaced with a more indefinite and open ended "oversight" role.** (*See Recommendation #1*)

Before its earlier elimination, acknowledged in the 2023 Program Document, an Ethics & Compliance Steering Committee had performed a clearly proscribed "oversight" role with respect to the compliance program. That committee's members included Exelon executives, a number of them very senior. The operation of the compliance program now focuses more on the relationship between EC&E and its two key leadership positions (the EVP CA&R and the CC&EO) on the one hand and a designated Exelon board of directors committee (historically and currently the A&R Committee). That focus is appropriate in giving EC&E leadership responsibilities, accountabilities, authorities, and visibility with respect to compliance and ethics.

Therefore, elimination of the list of responsibilities given formerly to the Ethics & Compliance Steering Committee and to the committee itself makes sense. However, the 2023 Program Document presents a more vague description of executive management oversight responsibility as compared with the clarity and delineation of the roles of the former Ethics & Compliance Steering Committee, consisting in major part of such executive management. The 2023 Program Document's section on "Corporate Compliance Program" "Roles and Responsibilities" provides that:

> *The Chief Compliance and Ethics Officer, the Compliance and Ethics Department, executive management, and the Exelon Board or a designated Board committee have Oversight accountability over the Program. (emphasis added)*

The 2023 Program Document provides detail on the roles as assigned to all of the listed sources except for executive management, leaving a void that did not exist in the 2015 Program Document, which clearly delineated executive responsibility as exercised through the Ethics and Compliance Steering Committee role. We view the movement of the compliance and ethics organization from

Legal department to Exelon CEO reporting as a strong step. We similarly view the independent role it has been assigned and that it appears to have exercised regularly with the boards of ComEd and Exelon. It also bears mention that federal criminal authorities have reported here and at another major U.S. utility holding company senior executive engagement in incidents and circumstances that have produced major repercussions. It is also logical to conclude that such engagement is more likely to be present in more consequential incidents and circumstance and that the influence exercisable by persons at that level more substantial in influencing detection and pursuit. It is not clear what form of "oversight" the 2023 Program Document anticipates. Should Exelon find that a proper "executive management" role continues to exist, that role should be explicitly circumscribed to avoid creation of any apparent authority not fully supportive of and consistent with governance, guidance, and operation material to compliance and ethics activities and their independent exercise.

5. **Recent actions and initiatives demonstrate increased emphasis on producing and sustaining a sound "tone at the top" with respect to compliance and ethics.**

Enhanced compliance organization visibility, empowerment, and independence resulted from Exelon's March 2020 creation of the new EVP C&A (later expanded to CA&R) position and its reporting to Exelon's CEO and to the Chair of Exelon's A&R Committee. The EVP CA&R serves on Exelon's Executive Committee, along with Exelon's other 14 most senior executives. The EVP CA&R also serves on the Exelon committee that reviews significant contributions to non-profits. Use of non-profits has proven a source of federal criminal concern for at least one other utility holding company recently.

ComEd has made major changes in its board and corporate leadership, naming a new CEO in November 2021 and replacing five departing board members with three new directors whose combined experience includes federal prosecutorial and corporate investigations, engineering management and construction, and non-profit enterprise experience. The CEO and some board members have engaged directly with employees to reinforce a commitment to compliant and ethical behavior. EC&E and ComEd have worked together to develop discussion sessions designed to improve recognition of and confidence in addressing recurring ethics issues, using actual ComEd incidents and circumstances. ComEd vice presidents deliver scenario-based compliance and ethics training sessions at least quarterly to non-represented employees and twice a year to represented employees. The ComEd CEO has used other meetings and sessions with managers and employees to continue stressing the importance of legal and ethical requirements adherence.

A written COBC Exelon CEO message and video introducing annual ethics training seek to reinforce the importance of ethical practices and COBC adherence. EC&E works with Human Resources personnel to identify particular work groups across Exelon (including at ComEd) whose responses indicate needs for outreach.

E. Recommendations

1. **Delimit the corporate compliance program "oversight" role of "executive management."**
   (*See Conclusion #4*)

The 2015 Program Document gave an appropriately scoped and clearly defined role for the Ethics and Compliance Steering Committee consisting in major part of Exelon executives and having a compliance program oversight role before its elimination some time ago. Committee retirement reflected an appropriate step given the changes associated with creation of the eventually titled EVP CA&R position. Those changes appear to leave executive management as a group with three principal compliance and ethics responsibilities - - facilitating acceptance by those under them of the need for acting consistently in accord with high expectations for compliant and ethical conduct, taking responsibility and having accountability for assuring that those under them meet those expectations, and themselves acting in accord with those same expectations.

It is not clear whether, and if so how, the undefined "oversight" authority given to "executive management" relates to and is limited by those three and specifically related roles. Exelon should clearly define what oversight means, providing clarity and setting boundaries as the 2023 Program Document does for others to whom it gives oversight and other roles and responsibilities. The required delineation should be clearly consistent with the roles, responsibilities, independence, visibility, and empowerment that Exelon appears to desire with respect to EC&E and its leadership.

Chapter Four: Compliance and Ethics Risk Assessment

A. Chapter Summary

Effective management of compliance and ethics requires regularly recurring and comprehensive assessment of the risks to maintaining a consistently high level of performance when measured against clear expectations supported by specific requirements. We examined how Exelon has structured, staffed, and performed compliance and ethics risk assessment for its business operations broadly and for ComEd more particularly. We also examined how the boards of directors stay informed of and oversee the risk assessment process and measures undertaken to address needs and opportunities for enhancing management and mitigation of those risks.

We found an effective, annually repeated compliance and ethics risk assessment process, enhanced beginning with the cycle for 2021 by a change to make the results more actionable. The process makes effective use of the broad base of knowledge and experience available from the population of SMEs (which include ComEd participants) who participate in workshops designed to identify compliance risks and engage in discussions about how to manage them effectively.

In particular, we found the focus on emerging risks an effective complement to the traditional focus on those of recurring and often long-standing nature. The risk assessment process makes effective use of incidents and circumstances from the world outside Exelon and its utilities in identifying emerging risks and in better informing the company about sources, potential consequences, and other ramifications of existing risks. We found a clear connection between the results of the risk assessment process in the priorities and plans of EC&E for the year. The organization has used its resources in coordination with the other Exelon- and utility-level organizations engaged or affected to make changes identified.

We found sound attention to the results of the process in addressing broader initiatives and more specific measures to manage and mitigate the comprehensive and well-described risks identified through the assessment process. EC&E has guided reasonably responsive efforts to address those risks through such initiatives and measures. The Exelon Board's A&R Committee receives regular and concise, yet descriptive reports of risks identified and recommended actions to address them. However, we believe that more clear assignment of scheduled milestone dates and reporting of status against them would more effectively manage their completion and make status and delays potential more visible to the A&R Committee.

B. Background

The performance of risk assessments has comprised a focus of efforts to reform compliance and ethics programs for several decades, following scandals of the 1990s and in recognition of external standards such as those existing under the Sarbanes Oxley Act of 2002 and U.S. Federal Sentencing Guidelines for Organizations. Many companies have performed them as part of efforts to manage broader enterprise-level risks; others, such as Exelon, perform them using some similar techniques but through workshops focused more narrowly on compliance and ethics risks. It has been common for compliance and ethics risk assessments to use the same kind of heat maps that enterprise risk management exercises have used. That charting often multiplies a value representing a risk's probability of occurrence by a number ranking representing judgment about

the severity of its occurrence. Higher values in both factors produce a higher ("hotter") result, presumably directing greater attention to those risks of greater concern.

Exelon has recently moved beyond the focus on heat maps and has recently made other changes in its compliance and ethics risk assessment process, results depiction, and responsive action tracking. This chapter shows the progression that has occurred, but its conclusions focus on the process as now planned and executed.

The Exelon Board's A&R Committee also has a more clearly defined role than it had some years past in overseeing the risk assessment process, along with the other important dimensions of the Exelon corporate compliance program executed on behalf of all its operations, including those of ComEd. While operating under a common program, ComEd board, executive leadership, and subject matter experts all play roles in compliance risk assessment, as they do in the other corporate compliance program activities addressed in the other chapters of this report.

C. Findings

1. Compliance and Ethics Risk Assessment Responsibility

EC&E has responsibility for planning, executing, and evaluating the results of compliance risk assessments at both the Exelon and operating company (including ComEd) levels. EC&E has adopted an enterprise-level approach under the belief that it best ensures a broad review of the risks involved, controls over them, opportunities for improving those controls, and synergies available through performing compliance and ethics activities through a single, central organization. EC&E does not use outside resources in conducting or supporting compliance risk assessments.

A NERC Compliance Program complements the risk assessments performed under the guidance of EC&E. That program includes periodic assessments to verify the efficacy of key compliance controls, preparing to meet new standards, and promoting a "healthy culture of compliance." A central Exelon Utilities NERC Compliance Management Team EU CMT conducts an Internal Self-Assessment Program that evaluates internal controls and compliance with NERC Operations and Planning Reliability Standards. A pilot program includes operating company NERC Compliance team conduct of a "spot check self-assessment program" incorporating periodic sampling of controls and NERC standards compliance. An INCC Quality Assurance Program has addressed NERC CIP Reliability Standards controls and compliance and played a role in preparing for new or revised NERC standards.

2. Compliance Risk Assessment Prior to 2021

The 2015 Corporate Compliance Program document guided the compliance risk assessment process through 2020, when it changed for first use in conducting the 2021 assessment. However, Exelon did not replace the 2015 Program Document until early 2023, as noted above. The SMEs continued to complete the 2015 Program Document's Annual Compliance Risk Assessment Template through preparation of the 2020 annual risk assessment. This report's Appendix Three: *2015 Risk Assessment Template Entries* lists the key entries as described in the template used through that assessment.

The template entries used under that since replaced process detailed compliance risks, existing controls, and needs for new or revised policies and controls. EC&E worked with the then-existing Ethics and Compliance Steering Committee members having functional accountability for activities falling in the identified compliance risk areas. That work included discussions designed to review and discuss questionnaire responses, SME input regarding individual compliance risk implementation activities, calibration of results by risk area (*e.g.*, Human Resources), and make indicated adjustments to heat map scores.

The 2015 Program Document also provided a Risk Mitigation Plan Template calling for mitigation plan development to address compliance risk areas identified. For those risk assessment entries identifying changes from last year's version, the template called for specific actions to address their mitigation. The CC&EO's "Annual Compliance and Ethics Program Report" to the Exelon Board's then Audit Committee (December 2, 2019) did not address the "hottest" risks or mitigation plans. The 2015 Program Document also included a Change Notification Template that SMEs completed when becoming aware of significant or imminent changes to applicable laws and regulations in their areas of responsibility.

This report's Appendix Four: *2018 Compliance Risk Assessment Summary* provides an example of the pre-change compliance risk assessment process (from 2018), as carried out before the DPA. The appendix demonstrates a process executed under oversight, governance, and performance as contemplated. This report's Appendix Five: *2019 Compliance Areas and Risks* provides an example of compliance risk areas employed, using 2019 process results as an example. It shows the practice of assigning individual risk to an identified SME.

The October 30, 2019 Exelon Ethics and Compliance Steering Committee meeting reviewed the year's risk assessment process and addressed a number of other corporate compliance program issues:
- The Annual effectiveness review
- Compliance updates
- Discuss Q3 2019 compliance metrics and Key Risk Indicators (KRIs)
- Relevant reviews by EAS
- Review and approval of 2019 Compliance Risk Assessment Process, results, heat map
- Risk alignment update.

The third quarter, August 12, 2019 meeting's 15 attendees addressed ethics and integrity trends and data, the impact of a growing employee population, a communication campaign, and positive impact of reinforcing a "speak-up culture." The group discussed means for determining compliance program resource adequacy and changes made recently. The group also discussed the Exelon Board's desire for granular data useful in identifying trends and noted the in-process upgrade to a new ethics software that would provide better analytics and reporting capabilities. A meeting participant noted Exelon's lower than average percentage anonymous reporting using its benchmark average, leading to requests for analysis of benchmark company comparability. It appears that an increase in the rate of concerns substantiated since 2016 contributed to a decision to exclude matters not subject to investigation and using closed cases as the denominator for

calculations for the time period(s) involved. It was observed that "investigations are improving" and that the Internal Threat Program had contributed to the metrics under discussion.

The group discussed results related to six pertinent questions from the company-wide engagement survey results, planning to work with the Human Resources Department to analyze the data. No violations were reported for the quarter. The group discussed recent NERC and VxWorks vulnerability reports.

An October 30, 2019 Ethics & Compliance Steering Committee Meeting presentation offered content similar to the 2018 version.

A compliance risk heat map comprised a principal output of the risk assessment process before the change that began to apply with the 2021 assessment. This report's Appendix Six: *Corporate Compliance Heat Map Example* shows the map resulting from the 2019 cycle. The map shows the results of combining risk probability of occurrence and severity as a means of showing those warranting the greatest attention. Heat mapping at that time used areas of compliance risk, as opposed to the specific risks either within areas or in common across areas. For example, areas listed among the 52 mapped in 2019 included:
- Lobbying and Governmental Activities
- Campaign Finance/Federal and State PACs
- FERC Standards of Conduct
- State Regulatory Code of Conduct - Illinois (ComEd).

3. Compliance Risk Assessment for 2021

EC&E began the redesign of Exelon's compliance risk process in the second half of 2020, seeking to make it conform more closely to business circumstances and developments and to promote accountability for improving the compliance program. The redesigned process has sought to improve the identification of emerging compliance risks and to make information about those risks and controls applicable to them more actionable for business personnel. The revised process employs a defined group of "high-level domains" for which the assessment process identifies compliance and ethics risks. EC&E modified the process leading to the 2021 compliance risk assessment, and then organized and facilitated workshops that included personnel with direct responsibility for managing compliance in each domain. EC&E works with the participants to compile a list of compliance risks for each domain. EC&E sends to participants information identifying recent internal and external compliance events, regulatory developments, and topics for discussion at the upcoming workshops. EAS and Enterprise Risk Management (ERM) also participate in workshop design and planning and attend them.

The "domains" categorize risks and organize the annual process for assessing them, aligning groups of related regulatory and legal compliance risks. Workshops leading to the 2021 risk assessment began in the last quarter of 2020. These workshops brought together SMEs from across Exelon's business operations to focus on the attributes and circumstances of each identified risk domain. The workshops continued through the third quarter of 2021. The 11 "domains" established comprise the following:
- Interactions with Public Officials
- Reliability, Resiliency, & Security

- Securities Regulation
- Financial Controls
- Human Resource Management
- Market Conduct & Competitive Retail Service
- Information Governance & Protection
- Environment, Health & Safety
- Utility State Commission Obligations
- Nuclear
- Mergers & Acquisitions

Both SMEs and others in business units across Exelon (including ComEd) have thus contributed to risk assessment process execution and results evaluation. Their roles include supplying information, evaluating controls effectiveness, identifying improvement opportunities, and preparing domain summaries and recommendations.

Post-workshop EC&E summaries of each domain's risks, management of them, and any recommended changes or improvements go to workshop participants for review and comment. Assignment and tracking of responsibility for addressing improvement recommendations occurs. EC&E prepares an overall summary report describing workshop results. The summary report for 2021 addresses:

- Insights from the risk assessment process across the domains
- Highest priority compliance risks and mitigation methods and actions
- Compliance risks primarily operational in nature and inherently high in risk, but subject to strong controls and exhibiting low violation likelihood
- "Watch areas" and emerging risks
- Areas on which to focus in strengthening compliance practices.

The 2021 Compliance Risk Assessment Report addressed the results of the first application of the changed compliance risk management process. This report, prepared for the August 2021 presentation to Exelon's Executive Committee, summarized observations from the 2021 Compliance Risk Assessment process. It found Exelon's compliance processes sound overall, "in some instances excellent," but subject to improvement in a number of areas. It summarized the process changes first applied in the 2021 process. Past practice relied heavily on the above-described static list of compliance risk areas. Prior risk assessment processes had addressed that list largely through questionnaire responses by SMEs assigned to each, supplemented by Ethics & Compliance Steering Committee member input. The report noted that reporting in prior years to leadership consisted mainly of a heat map that changed little from year to year. This report's Appendix Six: *Corporate Compliance Heat M*ap Example shows those areas and the corresponding map as prepared for 2019. This reports' Appendix Seven: 2021 *Compliance Risk Assessment Report Summary* shows the changes that resulted from institution of the new risk assessment process.

Management planned for completion of the 2022 compliance risk assessment process before year end. It employed a modified list of compliance domains:

- *Interactions with public officials*
- *Financial controls*
- *Securities regulation*
- *Workplace conduct*
- *Human resources management*
- *Utility state commission obligations*
- *Reliability, resiliency, and security*
- *Environmental*
- *Health and safety*
- *Mergers and acquisitions*

    • *Information governance and protection*

The changes in the 2022 list of compliance domains included:
- Dropped two addressing the Exelon generation and energy marketing businesses separated in February 2022
- Added Workplace Misconduct and Harassment
- Split the 2021 Environmental and Health and Safety into separate domains.

EC&E has held multiple workshops to provide a distinct focus on certain areas within a particular domain, including:
- 2021 and 2022 separate workshops for gas-specific and non-gas-specific state utility regulatory issues
- A 2022 separate workshop focused on ComEd's compliance with state utility regulations
- A workshop to address privacy compliance separately from the broader workshop addressing other information governance and protection domain risks.

Exelon's EVP CA&R oversees EC&E's efforts to ensure completion of each risk assessment process step. Standing weekly EC&E meetings and a tracker monitor progress as the workshop continues, tracking recommendations resulting from the workshops as well.

EC&E prepared a 2021 Compliance Risk Assessment: Results and Observations presentation for Exelon's Corporation Executive Committee in August of 2021. It summarized the compliance risks developed through the workshop process. The following table includes Liberty's summary of that assessment.

Summary of Risks Identified by 2021 Assessment

Highest Priority Focus Areas		
Compliance Risk	**Reasons for Elevated Risk**	**Key Mitigation Actions**
Bribery, corruption, other interaction with officials	Recent ComEd matter and pending DPA, interaction frequency and sensitivity; significant improvement but still new and "no margin for error"	• Prioritize new policy implementation and training • Continue implementation effectiveness monitoring
Cyber-attack, other security incident prevention & response	Volume and sensitivity of information, vendor dependence, dynamic threat, expanding requirements, hiring, training top cybersecurity talent	• Continue strengthening vendor vetting, oversight • Regular incident response protocols review, updating
Unauthorized customer information access or disclosure	Volume & sensitivity of information, dynamic threat, vendor dependence, & data loss, expanding requirements, division of control responsibilities	• Clarify information protection controls governance • Strengthened training for involved employees • Limit access to sensitive data
Market manipulation and market behavior rule violations	Rules & market activity complexity, prior violations, pending investigations, prospect of more active enforcement by federal and state authorities	• Ensure compliance support and training adequacy • Update guidance materials, improve accessibility
Failure to prevent fraud, corporate asset misuse	SEC control investigation, large project vulnerability to vendor fraud and kickback, inconsistent focus on vendor oversight, fraud detection	• Expand anti-fraud training • Encourage suspicious activity reporting • Increase analytics scale, sophistication to monitor fraud
Noncompliance with NERC Reliability Standards	Recent investigations & settlements, NERC FAC-008 matter, weaknesses in self-assessment process & correction implementation; jeopardy to self-logging authority and increased regulatory costs	• Ensure independent compliance function review • Strengthen corrective action status monitoring
Fraudulent employee conduct to meet goals, metrics	Inherent risk drove fraud at other companies; Exelon incidents indicate possibility that employees will manipulate metrics to hit targets	• Identify opportunities for manipulation, address controls design & execution, evaluate cultural factors
Areas of Inherently High Risk But Performing Without Frequent Violations		
Compliance Risk	**Discussion**	
Failure to comply with environmental requirements Inaccurate or untimely SEC filings or investor disclosures Noncompliance with NRC requirements regarding nuclear operations Noncompliance with gas pipeline safety, construction, and maintenance requirements Violations of safety regulations resoling in serious injuries to employees, contractors, or public	•Compliance programs addressing these risks well-managed, but potential consequences for significant compliance failures high •Important to continue monitoring health of compliance programs in these areas, particularly during personnel and organizational transitions •Reduced commitments to compliance programs could elevate risks	
Watch Areas: Modest Inherent Risk, but Active Management Appropriate		
Compliance Risk	**Comments**	**Actions**
Allocating costs to appropriate stakeholders	Allocations to wrong entity, overuse of general allocator, assignment to vs. O&M	• Identify employees whose actions affect cost allocations and ensure proper training and oversight • Periodically ensure continuing allocations' validity
Unauthorized access to, disclosure of sensitive industry information	Inconsistencies in data classification, labeling, use of transfer & storage methods, records over-retention, diffuse governance, & training gaps contribute to risk	• Tailored training for those handling sensitive • Information protection practices governance review • Continued pilot project to test data classification tools
Emerging Compliance Risks: Areas of Rapid Regulatory Change		
Development	**Actions**	
Increased SEC & investor ESG disclosure scrutiny	Ongoing EAS review of ESG disclosure controls; increased Controllership and Environmental compliance teams' focus on ESG disclosure process	
Federal cybersecurity & supply chain security law, regulation, directive expansion	Ongoing efforts to strengthen vendor vetting & oversight processes and improve Legal, Supply, CISS, Compliance, and business teams coordination on cybersecurity work	
Expansion of state data privacy laws	Compliance monitoring of legislative developments, coordinating with customer teams, & awaiting final approval to implement privacy data mapping solution	

The presentation closed by noting the identification of "numerous recommendations" to strengthen compliance practices, then in the process of finalization, followed by the following three

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IV. Compliance and Ethics Risk Assessment

"enterprise-wide areas of focus" described as mutually reinforcing and capable of substantial improvement in compliance risks.

2021 Enterprise-Wide Areas of Compliance Risk Focus

Strengthening Compliance Training	Employees who understand their compliance responsibilities are more likely to perform them effectively. Role-based training for employees with compliance responsibilities should be a priority, as should ensuring an efficient system for delivering and managing training content
Enhancing Exelon's Compliance Culture	People are influenced by the behavior of those around them. Strengthening a shared understanding of the importance and business value of compliance will reduce the likelihood of misconduct and mistakes, and increase the likelihood we'll spot and fix problems early
Improving Knowledge Management	We risk losing institutional knowledge of compliance practices and responsibilities without strong processes to document it, share it, and ensure its preservation during personnel transitions. Management teams should prioritize key policies for updates, clearly document compliance processes and accountabilities, and monitor transitions in roles with important compliance responsibilities

Similar presentations went to the Audit Committee of the Exelon Board of Directors and operating company Risk Management Committees (including that of ComEd) in the fourth quarter, with an earlier, July 2021 one to the Exelon board of directors.

The presentation to the Risk Management Committee added a slide addressing specific recommendations, citing 30 slated for fourth quarter work inception, including six specific to Exelon's utility domain:

- High priority utilities' development of a process for transferring knowledge of existing regulations and compliance processes to withstand a high, key subject matter expert turnover rate
- Medium priority review processes for gathering information used in utility regulatory commission reporting, to identify and address potential weaknesses undermining reported information accuracy
- Medium priority utilities' confirmation of a consistent approach to regular compliance assessment for guy-wire standards, followed by any appropriate corrective action
- Medium priority consideration of implementation at one utility (not ComEd) of a gas compliance obligations tracker
- Low priority utilities' consideration of benchmarking with each other and outside gas distribution utilities on access for inside inspections and controls to prevent harm between inspections
- Low priority consideration by ComEd and other utilities of adopting a process and template for regulatory screening of customer complaints involving potential noncompliance with tariffs or regulations.

4. *Anti-Fraud Community of Practice*

A multidisciplinary internal team operates under an "Anti-Fraud Community of Practice Charter" that charges this group with regularly assessing Exelon's fraud prevention program and its methods and practices for fraud prevention, detection, response, and controls. It operated earlier under joint sponsorship by Audit Services and the Ethics Office sponsorship (since consolidated under the EVP CA&R). The Exelon Ethics and Compliance Steering Committee had oversight responsibility before that committee's elimination. The operating utilities contribute team members, as did Constellation and Generation before their spinoff. Exelon-wide organizations also contributed members:

- *EC&E*
- *Audit Services*
- *Legal*
- *Risk Management*
- *Security*
- *Supply*
- *Finance*
- *Information Technology*
- *Human Resources*

The charter calls for the team to work collaboratively with the Ethics and Compliance Steering Committee to:
- Share feedback and insights and on fraud risk assessment and training, monitoring and detection capabilities enhancement
- Participate in anti-fraud awareness campaigns and distribution of educational materials within their business units and functions
- Review statistics, trends, and lessons learned from internal investigations
- Serve as SMEs to assist fraud related internal investigations, audits or other initiatives in their business units.

EC&E staff members have administered activities of the Steering Committee and the Anti- Fraud Community of Practice, facilitating the flow of information between the two groups. The Community of Practice appears to have met nine times between October 2019 and March 2022, somewhat short of the at-least quarterly meetings called for by its charter. Those meetings have operated under clear agendas and with detailed presentations, generally exceeding 20 slides in length. The materials from those meetings show a reasonably comprehensive and dynamic set of discussions focused on a broad range of training in fraud identification and controls, enhancement of abilities to address fraud considerations in EAS engagements, supporting fraud-related investigations. Resulting anti-fraud training presentations have been delivered to four ComEd groups: Technical Services, Customer Channels, Customer Solutions, and Support Services.

5. *Targeted Compliance and Ethics Initiatives*

Management cited a number of actions in the past year to address specific compliance issues and risks, in addition to the more broadly based activities discussed elsewhere. They include:
- A joint NERC Compliance Management Team and EC&E "Recommit To Compliance" initiative to review and strengthen NERC compliance processes addressing Exelon's self-assessments of compliance with NERC standards
- An EC&E and IT pilot of a technology-enabled information classification system to strengthen information protection and record management processes
- A partnering effort by the Supply organization and EC&E to improve automation of vendor vetting and oversight having implications for Exelon interactions with public officials

- EC&E development of a template to assist in transferring compliance-related knowledge during business-unit personnel transitions
- Exelon Corporate Strategy Group initiation of an effort to review and strengthen relating to Environmental, Social, and Governance issues governance
- Supply organization creation of a dedicated compliance team to enhance focus on supply-related compliance issues.

6. *Status of 2021 and 2022 Risk Assessment Process Recommendations*

The next table summarizes the November 2022 status of recommendations resulting from risk workshops conducted. The "Recs." column shows numbers falling into each of the low, medium, and high categories used, with a question mark indicating those not assigned a priority. The spreadsheet used further sorted them, as the table summarizes, into those completed, those in process, those not begun but having assigned responsibility, and those neither begun nor assigned to a responsible person.

Workshop Recommendation Status

Domain	Year	Recs.	Begun		Assigned	
			Complete	In-Process	Yes	No
Securities	2021	2L,2M,2H	4	2		
	2022	none				
Utilities Gas	2021	3?	2	1		
	2022	1?				
Utilities Non-Gas	2021	1L, 2M	1	2		
	2022	none				
M&A	2021	2L	2			
	2022	2?	2			
Information Governance	2021	1M	1			
	2022	none				
Financial	2021	1L, 1H	2			
	2022	none				
HR Management	2021	1L			1	
	2022	3?	no information on status			
Reliability, Resiliency, Security	2021	2L, 6M, 5H, 1?	1	4	3	6
	2022	none				
Public Official Interactions	2021	1L, 3M, 2H	1	5		
	2022	2?				3
Key Observations	2021	2L, 3M, 5H, 9?	5	6	2	6
	2022	none				
Workplace Conduct Harassment	2021	none				
	2022	5?				5
Information Governance	2021	none				
	2022	3?		2	1	1

D. Conclusions

1. Exelon's conduct of very substantial annual compliance risk assessments are well coordinated, engage a sufficiently broad range of expertise and job experience, and employ workshop and other activities that ensure a reasonably broad and deep identification and documentation of the risks involved.

EC&E coordinates the planning and execution of a comprehensive annual risk assessment process and guides the evaluation of its results for purposes of identifying mitigation measures to address issues and concerns raised by the process. EC&E does so using one of its leaders, who has substantial experience in conducting such assessments. The workshop process that underlies the

assessment makes effective use of a group of SMEs from across Exelon, including representation from ComEd. These SMEs have job responsibilities that give them pertinent expertise and experience in the areas on which their workshop participation focuses - - producing a broadly informed process that involves significant EC&E and SME time and attention. EAS personnel contribute substantially. Certain specialized areas, such as NERC compliance, undergo unique compliance risk assessment processes, using expertise pertinent to the issues involved. We also observed clear engagement by Human Resources and EAS in the process for the 2021 cycle.

2. **Recent movement away from the template and heat map process has produced clearer, more actionable plans for addressing identified risks without sacrificing comprehensiveness or depth of effort in producing them.**

The risk assessment process employed before the one leading to the 2021 risk assessment was comprehensive. It engaged SMEs in a questionnaire process and a principal result involved a heat map that depicted each of more than 50 risk areas. Our review of pre-2021 results confirmed newer leadership's view that it tended to produce what can be termed a fairly "static" picture of risks. Risk areas ran to a significant number - - above 50 - - but with descriptors too general to make the heat mapping of them compelling in depicting the specifics that drove them. Documentation following the earlier process did address issues and concerns arising from the risk assessment process, but at a level and in a way not easy to correlate with the heat map.

The change initiated later in 2020 to guide and inform the process for 2021's assessment moved to the use of 11 risk domains to categorize risks and organize the process for assessing them. That change and the greater emphasis on interactive workshops versus questionnaires has produced what it appears management intended by the change - - more actionable descriptions of actions to manage and mitigate risks more effectively.

Our comparison of the process and results before and after the change showed no loss in comprehensiveness or underlying effort. The post-change results reflect greater collaboration produced by the workshop process. Workshop summaries identified the risks in each domain, how they were being managed, and recommended changes or improvements. Workshop participant review of them has been followed by a summary report listing highest priority risks, mitigation actions existing and proposed, where strong controls minimized the likelihood of high consequence risk, watch areas, emerging risks, and areas for focus in strengthening compliance practices.

3. **While improved over 2021, completion of recommendations resulting from the risk assessment process has lagged.** (*See Recommendation #1*)

To-date, the 2020-2021 and 2021-2022 compliance risk assessment review processes have resulted in approximately 56 compliance and ethics program improvement recommendations and 14 key observations. Currently, Exelon tracks ethics program review recommendations using an Excel spreadsheet. By the end of the first quarter of 2023, Exelon expects to be transitioning to ServiceNOW Governance Risk & Compliance tool to track recommendations resulting from workshops.

The most recently provided status report shows 52 percent of improvement recommendations completed, 25 percent in process, and 18 as not yet begun, with some of those not yet assigned to specific groups for implementation. EC&E removed 4 recommendations from the tracker. Removal occurs as continuing examination of the recommendations shows them no longer recognized as valid or executable.

The tracker also includes key observations, which EC&E considers longer-term, more broadly based initiatives. The spreadsheet used shows 71 percent of those completed or removed as recommendations, leaving 29 percent in process, unassigned, or with implementation not begun. The next table summarizes those not completed.

ID	Recommendation	Implementation Status
2020-2021 KO-1	Improve role-based compliance training	In process. LMS ownership and potential technology changes pending
2020-2021 KO-1.2	Propose training approaches tailored to each need, consulting with relevant business groups.	Pending decisions on LMS ownership and administration; C&E can help minimally but posting new trainings, especially role-based trainings remain work intensive.
2020-2021 KO-2	Create and maintain a central library of training materials	Recommendation removed. LMS and LRN are the central library. New LMS owner will maintain in future.
2020-2021 KO-3	Identify a simple and cost-effective solution for delivering small-scale compliance training	Recommendation removed. Premature, LMS will remain until new solution is selected. This need was reported as a need in BSC. LMS ownership and BCS LMS admin onboarding will help.
2020-2021 KO-4	Identify a corporate owner for LMS	In process. Meeting to be held in March 2023 to begin these discussions.
2020-2021 SEC-4	Revise insider trading training based on policy changes	In process, Policy to be updated in Feb 2023. Would still be good to develop formal training materials.
2020-2021 IPO-1	Implement role-based public official interaction training such that LMS will automatically assign training when employees enter these positions.	In process, Business leads have identified employees with LMS expertise. Need to identify training leads from each OpCo to assist. C&E to lead the mobilization of Training Support.
2022 WP-1	Add posters and other physical communications to encourage reporting; QR code to EthicsPoint System	In process.
2022 WP-3	Consider whether it would be worthwhile to use surveys or focus groups to measure the impact and effectiveness of training and communications (all OpCos)	Not assigned. Not started.
2022 WP-4	Explore additional manager training to equip leaders to build trusting relationships…	Not assigned. Not started.

Tracking of recommendation status has improved but remains an issue. A number of recommendations still await responsibility assignment. Tracking does not use schedule milestones. It does appear that highest priority recommendations receive substantial attention and have moved along toward completion. However, the lack of milestone dates, regular reporting of status by those

assigned responsibility, and in some cases the absence of assigned responsibility should be seen as contributors to implementation delay.

E. Recommendations

1. Enhance tracking of status in implementing compliance program recommendations like those resulting from the risk assessment process. (*See Conclusion #3*)

Tracking should show clear responsibility for and milestone dates for completion of all required implementation tasks. The risk assessment process employs an effective means for prioritizing recommendations. Carrying a similar categorization through to implementation tracking along with clear responsibility designation and dates will give the boards of directors more granular information from which to oversee implementation effectiveness and timeliness without engaging them in significantly more detail, except where they choose. Those responsible for implementation steps should report progress regularly and note jeopardy to timely completion.

These measures will better enable EC&E to ensure prompt and effective implementation, particularly of lower priority recommendations. Doing so will still permit rearrangement as other priorities intrude. These measures will also provide the boards of directors with greater visibility into implementation challenges and a foundation for discussing consequences of emerging delays.

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V. Securing Compliant and Ethical Performance and Behaviors

Chapter Five: Securing Compliant and Ethical Performance and Behaviors

A. Chapter Summary

The second, third, fourth, sixth, and seventh chapters of this report address groups of functions or activities designed to secure compliant and ethical performance and behaviors. This chapter presents the results of our examination of a number of other, specific measures to do so. These include training and communications, lobbying and political consultant measures, controls over interactions with public officials, how compliance and ethics factor into performance evaluations and compensation, the use of employee engagement surveys and exit interviews to assess compliance and ethics program understanding and effectiveness, and measures to apply lessons learned to assess and improve that effectiveness.

EC&E has primary responsibility for directing efforts to provide compliance and ethics training and for communications that ensure awareness of related expectations and requirements. EC&E employs a range of formal and informal approaches to provide compliance and ethics materials and training to internal and external participants. Training and communication to the general population focus on the COBC and SCOC, with more specialized training applicable for those with particular roles in compliance and ethics program execution or in positions that require special knowledge and awareness to comply with requirements.

Employees must attest to training completion and understanding of their COBC obligations and responsibilities to receive completion certification. Exempt employees must certify that they have disclosed conflicts of interest involving Exelon and disclaim awareness of any previously unreported violative conduct. Newly hired employees and contractors must complete COBC, Preventing Sexual Harassment, Security Awareness, and Phishing Awareness training within 30 days of onboarding, with annual training requirements that follow. Employees whose roles require guidance on job-related policies receive more specific compliance training.

Overall, we found compliance and ethics training sound and consistently delivered. Ethics and compliance policies and procedures, including the COBC, were effectively communicated to employees, directors, and business partners and suppliers. We did, however, find a number of improvement opportunities. First compliance and ethics communications would be improved by preparation, execution, and measurement of results under a structured communications plan. Second, management should survey participants about the effectiveness of compliance and ethics training. Third, specific additional and more targeted training needs identified through compliance risk assessment workshops should occur.

Our review found that changes to the performance management or evaluation process announced to employees in March 2023 added emphasis to compliance and ethics as a factor affecting compensation decisions. Recently expanded employee engagement survey questions provide a stronger base for assessing employee views on compliance and ethics matters and plans for expanding exit interview scopes for personnel departing Exelon should do the same. A sound series of efforts to capture and use lessons learned from prior incidents and circumstances exists.

B. Background

Each of chapters two, three, four, six, and seven of this report address material elements in securing compliant and ethical performance and behaviors. This one deals with a number of others that do so, but without the more unified nature of the subjects those other chapters address. A principal element that this chapter addresses, training and communications related to compliance and ethics, has comprised a focus of EC&E. Risk assessment workshops have identified gaps in knowledge and experience among personnel with material compliance and ethics roles (SMEs, for example) due in major part to departures from Exelon, like the many occasioned by the recent separation of Constellation.

Ethics and compliance training plays a critical role in promoting full employee understanding and acceptance of regulations, policies, and legal obligations and their responsibilities and accountabilities regarding them. Mandatory training should span a range of subjects, including, for example, workplace safety, information security, data protection and privacy, diversity, equity, inclusion, healthcare, workplace conduct, regulatory requirements, human resources, and environmental concerns. Structured, comprehensive and recurring compliance and ethics communications should seek to reinforce expectations and make it clear that misconduct will not be tolerated.

We examined Compliance and Ethics related training and communications during the period of 2019 through 2022. Our examination included reviewing training materials, policies, and communications supporting the delivery of compliance and ethics training to employees, suppliers, and board members. We also reviewed summaries and results from workshops conducted to assess compliance risk within ComEd and Exelon organizations, internal audit reports, employee surveys, lessons learned, and other documentation regarding compliance and ethics training and communications. We examined Exelon's and ComEd's compliance and ethics training and communication with consideration of guidelines established by the U.S. Department of Justice Criminal Division to evaluate corporate compliance programs and placed particular emphasis on areas related to training and communications identified in Attachment B, Corporate Compliance Program, of the Deferred Prosecution Agreement, including requirements that:

- ComEd will implement mechanisms designed to ensure that its compliance code, policies, and procedures are effectively communicated to all directors, officers, employees, and where appropriate, agents and business partners including consultants and lobbyists
- Mechanisms shall include: (a) periodic training for all directors and officers, all employees in positions of leadership or trust, positions that require such training (e.g., internal audit, sales, legal, compliance, finance, and government relations), and, where appropriate agents and business partners including consultants and lobbyists; and (b) corresponding certifications by all such directors, employees, agents, and business partners certifying compliance with the training requirements.

This chapter also addresses a number of provisions specific to interactions with public officials, and controls addressing lobbying and political consulting services and agreements that cover them. Such matters played material roles in events and circumstances leading to the DPA and have formed a major focus of EC&E and business unit government affairs and related activities for the past two years or so.

This chapter also addresses three activities - - performance measurement and its relationship to compensation, assessments of employee engagement, and exit interviews with departing personnel. Typically considered Human Resources responsibilities, these activities can assist in meeting compliance and ethics expectations and requirements. For example, incorporating ethical behavior into performance evaluations and the compensation decisions that consider those evaluations can encourage compliance with expectations and requirements while discouraging non-compliance through disincentives.

This chapter also addresses particular methods employed to ensure that lessons learned from incidents that have occurred, circumstances that have existed, and the quality of response to them undergo identification and assessment that leads to remedial action where appropriate.

C. Findings

1. Training and Communications

The 2023 Program Document addressed more extensively in this report's Chapter Two: *Compliance and Ethics Program, Organization, and Resources* places two key training and communications elements under EC&E direction, stating as follows:

- Performing and supporting initiatives that promote a Culture of Compliance. These initiatives should include communications, training, and regular review of relevant policies to confirm that they are up to date and clearly define expectations and responsibilities.
- Maintaining an Ethics program with training and reporting capabilities (including anonymous reporting) as described in LE-AC-204 and investigation capabilities as described in LE-AC-205, and annually reviewing the Code of Business Conduct to confirm that it appropriately addresses risks identified by the Compliance Risk Assessment process.

EC&E, which has primary responsibility for ensuring effective ComEd compliance and ethics program execution, also has ownership and execution of mandatory annual compliance and ethics training and conflict of interest certification process.

a. New Employee and Contractor Onboarding

Newly hired employees and contractors must complete COBC and Preventing Sexual Harassment training within 30 days of onboarding, with annual training requirements that follow. The onboarding process requires completion of Security Awareness and Phishing Awareness training within 30 days of onboarding. New ComEd supervisors must participate in a two-week training program that addresses responsibilities for compliance and culture and compliance reporting requirements. It covers the investigations process, the prohibition against retaliation, workplace conduct issues, manager obligations under collective bargaining agreements, and conflicts of interest. Exelon paused this approach in 2022, with the Constellation separation, replacing it for new hire and contractors with initial compliance and ethics training during the annual training campaign (June through October 15th).

EC&E plans to conduct its annual ethics training campaign for 2023 from May through early September or October.[5] Training will include a module on the COBC, a module on Preventing Sexual Harassment, and the annual conflict of interest certification for non-represented employees.

b.   Employee and Contractor Refresher Training

Employees and contractor personnel with Exelon network access must undergo COBC refresher training annually. Exelon's Learning Management System (LMS) delivers compliance and ethics training, using hypothetical scenarios, video and audio, and knowledge checks. The LMS records all training assignments and completions, including training title, required date, days remaining, completion date, failure date, and qualification on successful completion.

The system supports completion of assigned training modules by all employees by sending emails embedding links to the LMS at the beginning of a training campaign. Reminders come periodically and with increasing frequency as training deadlines approach for employees who have not yet completed the training. The intranet also posts reminders regarding ethics training. Employees who do not complete required ethics training before the deadline receive a series of escalating reminder emails, followed, if necessary, by loss of electronic company access until training completion.

The LMS platform monitors user COBC training progress and issues a completion certificate after viewing all content and completion of knowledge checks. To obtain certification, every employee must submit an attestation confirming that they have finished the training and comprehend the obligations and responsibilities outlined in the COBC. The training platform stores the certifications. Additionally, employees and contractors are assigned Respectful Workplace, Security Awareness, and Phishing Awareness training every year.

Two-part, mandatory Respectful Workplace Training applies to all employees, offered through LMS and involving similar knowledge check and attestation features. The training also includes a component that people managers take the lead in providing to their employees. EC&E and Legal also delivered this training to managers, who delivered the scenario-based second part of training to employees.

c.   Targeted Employee Training

ComEd employees who regularly communicate with public officials must undergo training on policies that govern interactions with those officials. Exelon adopted in July 2020 four policies (addressed below in this chapter) governing such interactions. Exelon initially provided training related to these four policies to utility- and Exelon-level employees in Government Affairs, Site Communications, External Affairs, executives, Human Resources, and Supply organizations. The groups receiving this focused training expanded in 2021 to include generation and marketing (*e.g.*, personnel at now-separated Constellation). Exelon added such training for Customer Operations personnel in 2022, extending the affected population to more than 600.·

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[5] ComEd's comments on a draft of this report cited a May 1 launch and a September 25, 2023 completion.

Training on interactions with public officials employs live webinars and includes opportunities for employees to ask questions and engage in discussions. Recordings of the live sessions make them available to employees unable to attend. The materials used in these training sessions include:

- A New Exelon Policy on Interactions with Public Officials that provides an in-depth examination of policy requirements and expectations, delivered in multiple sessions during the 2020 training cycle
- A New Exelon Policy on Interactions with Public Officials training session (delivered in multiple sessions in the 2020 training cycle) designed for a wider range of employees, with particular emphasis on those whose job responsibilities significantly engage maintaining the control environment
- An Interactions with Public Officials - Public Official Request Tracker - Supplier Certification (PORT-SC) training module designed specifically for executive administrative coordinators and conducted in March 2021, to enhance this group's awareness of tracking system controls and notifications to enhance their abilities to support leadership
- A Vendor/Supplier Compliance: Information Session Enforcement presentation delivered in multiple training sessions throughout 2021 to educate ComEd Supply professionals on implementation strategy and control enhancements related to Exelon's Policy on Vendors and Suppliers Affiliated With or Referred, Recommended, or Requested by Public Officials The Company
- A Training addressing Policies Governing Interactions with Public Officials presentation delivered multiple training sessions in the 2021 training cycle and intended for employees, who regularly interact with public officials, lobbyists, and political consultants
- A Discussion re Policies Governing Interactions with Public Officials and the PORT System - ComEd Customer Ops SVP Staff Meeting session attended by the Customer Operations management team during a June 2022 training session
- (Re)Training re Policies Governing Interactions with Public Officials and the PORT System for ComEd Government and External Affairs professionals, held in July 2022.

ComEd employees who work in lobbying or political consulting have undergone training on various topics, including the four, below-discussed policies related to interactions with public officials and lobbyist and political consultant requirements and procedures. A group of ComEd employees engaged in lobbying have also attended a training webinar sponsored by the Business & Industry Federation of Economic Concern. The webinar included instructions on "2022 Lobbyist Registration & Expenditure Reporting - New Mandates for Lobbying Entities and Lobbyists."

Other targeted employee training delivered in 2021 and 2022 has included anti-fraud and expense management. Management required expense management training for employees with company credit cards. Four ComEd groups (Technical Services, Customer Channels, Customer Solutions, and Support Services) received anti-fraud training.

d. Lobbyist and Political Consultant Training

ComEd legal professionals or outside counsel have generally led training sessions for lobbyists. However, ComEd Government Affairs and EC&E facilitated an August 2020 joint training session

to review new controls. The EVP CA&R and the CC&EO led the session, which included distribution of:

- New Exelon Policies on Interactions With Public Officials
- Exelon's four policies governing interactions with public officials
- Exelon: Strengthening Lobbying and Compliance Controls to Establish a World-Class Program for Compliance, Ethics and Accountability
- Exelon Policy Key Points.

Additional 2021 instructor-led sessions engaged ComEd's external lobbyists and included distribution of:

- Exelon COBC (2016 Rev.)
- Exelon COBC Overview - ComEd Lobbyists and Prohibited Harassment (January 2021)
- Exelon Corporate Policy, Policy Against Sexual Harassment by Exelon Lobbyists in Illinois, GR-AC-POL2-001, Rev. 2
- 25 ILCS 170/ et seq., Illinois Lobbyist Registration Act and Illinois Administrative Rules Part 560 (Lobbyist Registration and Reports).

The Company provided Exelon's Four Policies Governing Interactions with Public Officials to its external regulatory consultants in April 2022.

e.   Board of Director Training

Exelon followed introduction of the four policies addressing interactions with public officials and political consultant and lobbyist requirements with in-person training sessions for current and future members of the ComEd and Exelon boards of directors. The training covers the four policies in detail and includes an overview of the Public Official Request Tracker (PORT). This tracker, described later in this chapter, records requests made by public officials and potential vendor affiliations with public officials. The training material also includes real-life examples of requests actually reported under the PORT system and reviewed for satisfaction of requirements and expectations. Exelon board members also participated in July 2022 in a review of the COBC provisions related to gifts and entertainment. Exelon plans to refresh director training on an annual basis.

f.   Management Training

All key ComEd managers, directors, and executives received an invitation to a November 11, 2021 kick-off call hosted by the ComEd President and COO, EVP CA&R, ComEd VP Distribution Operations, and ComEd VP of HR. The purpose of the call was to "reset expectations of the role of leadership in the corporate ethics process." Following this kickoff, all ComEd executives took on responsibility for follow-up with their key managers and directors. Sessions conducted in November 2021 covered the COBC, corporate values, cultural beliefs, and inclusive leadership model. Additionally, executives discussed two recent, actual scenarios that resulted in termination or discipline of senior personnel. This initial training session marked the beginning of regular conversational sessions planned to take place quarterly in 2022 for all levels of the organization. The first quarter 2022 ComEd Key Manager's meeting, which focused exclusively on ethics and integrity, sought to reinforce compliance and ethics expectations.

Leadership has communicated to ComEd vice presidents the expectation that they will conduct ethics and integrity scenario-based discussions with direct reports quarterly. Those expectations include Director and Key Manager conversations, quarterly with their reports and at least twice annually with represented employees.

g. Training for EC&E Employees

Employees working within EC&E receive training related to their area of specialization within the department, generally by outside firms or industry or trade organizations. The organization's employees have become certified, through means that include a license to practice law or other professional certification (*e.g.*, Leadership Professional in Ethics and Compliance, Certified Information Privacy Professional, or Certified Information Professional). EC&E employees also regularly attend conferences bearing on their compliance and ethics roles.

The senior EC&E AGC**B** (whose role report's Chapter Two: *Compliance and Ethics Program, Organization, and Resources* describes further) who has responsibility for managing compliance and ethics investigations offers personalized training to employees responsible for intake of new compliance and ethics matters or concerns. In addition, EC&E has developed job aids for employees who need to access case information in the ethics investigation database. To ensure that employees involved in handling investigations are properly trained, Exelon provides both internal and external training. The Human Resources CIT also receives training.

Clear Law electronic training modules on internal investigations are mandatory for new members of the Human Resources CIT. These modules cover topics such as Advanced Interviewing Techniques, Examining Credibility, Legal Requirements of Workplace Investigations, Cognitive Interviewing Techniques for Investigations and Litigation, Content Analysis of Witness Statements, and Protecting Attorney-Client Privilege. Upon completion of this training, CIT members secure an Investigations Certificate.

In 2022, EC&E, the CIT, and other employees from Human Resources, Security, and Audit piloted a series of internal investigation workshops. Team members who attended this training received certification from the Association of Workplace Investigators. Schedules call for the other CIT team members to attend this training in 2023; a broader, 2023 rollout will include additional Human Resources, Security, and Audit personnel.

Individuals on the ComEd and Exelon Security teams who participate in investigations related to physical safety, theft, or misuse of company assets are Certified Fraud Examiners. They also possess significant experience in law enforcement investigations.

h. Supplier Training

Exelon began in 2022 to provide suppliers Exelon's SCOC during onboarding. Prior to this, suppliers had access to the COBC. Exelon's Supplier Portal website highlights the SCOC. Every other year, suppliers receive an email reminder about code obligations and a link to documentation of them. Exelon's Master Terms & Conditions for supplier contracts also refers to the SCOC.

i.   Measuring Ethics and Compliance Training Effectiveness

Measuring compliance and ethics training effectiveness helps organizations determine the degree to which training efforts produce positive impact and where improvement opportunities exist. Assessment of training effectiveness can, for example, help identify areas where employees may find policies unclear and how further training can provide greater clarity. Exelon considers compliance training effective "when it helps employees fulfill their compliance obligations, avoid conduct that violates legal, regulatory, and ethical requirements, and recognizes and reports potential violations." Management has several approaches it uses to assess effectiveness of compliance and ethics training:

- Using knowledge checks and quizzes in online training modules offered through the LMS
- Soliciting informal feedback from training participants
- Investigating whether employees involved in compliance and ethics issues understood policies and obligations
- Enhancing or adding training when instances in violation data indicates a trend
- Testing by sending fake phishing emails to employees.

EC&E conducts an annual review of its training content to identify and implement necessary revisions that ensure compliance with legal requirements and incorporate any relevant lessons learned or changes. EC&E engages with stakeholders to address concerns and works closely with the legal department to ensure that the training aligns with current regulations. Additionally, EC&E considers lessons learned and technical issues to enhance the quality of the training content.

Exelon does not conduct formal surveys of ethics training participants at the conclusion of the training.

j.   Ethics and Compliance Communications

Compliance communication involves conveying rules, regulations, and laws applicable to employee roles. It also entails communicating the organization's values and integrity, and guiding employees on how to make ethical decisions by clearly communicating what is considered right and the proper process to follow. Effective compliance communication demonstrates commitment to honesty and responsible behavior to all stakeholders, both internal and external. Compliance programs that make a difference require sound implementation, continuous communication, and dedicated enforcement executed without bias or deference to position. To ensure effective communication, a company must establish mechanisms that facilitate effective communication of its compliance code to all directors, officers, and employees. This requires repeated communication, frequent and effective training, and the provision of guidance when issues arise.

The terms "training" and "communication" are sometimes used interchangeably, which can lead to a flawed understanding of the role that effective communication plays in reinforcing required compliance training, strengthening the overarching message of compliance and ethics, and fostering lasting behavioral change.

Communicating compliance and ethics effectively to employees, third parties, and stakeholders is crucial for the success of the program and creating a culture of compliance and ethics within the organization. It is important to have a communication plan in place to organize and articulate the

compliance and ethics messages throughout the enterprise. Developing a coherent and structured plan that integrates communications into selected channels becomes a part of the regular workflow, rather than a series of ad-hoc events.

EC&E maintains an internal website and its members regularly participate in working groups and committees and speak at employee and leadership meetings. Employees seek and receive guidance from EC&E through informal consultations. EC&E monitors a dedicated mailbox and a portal, operated by an outside firm, to handle compliance and ethics questions and concerns.

EC&E does not create or manage a formal communications plan for ComEd or its other utilities. Some communications occur on a regular basis, with others happening as deemed required. EC&E uses emails, presentations, live training, and meetings to communicate with employees. Furthermore, EC&E maintains a SharePoint intranet page that can be accessed by all employees.

EC&E does not maintain a log of all compliance-related communications, just those communications delivered through the Exelon Communications' channels. A review of compliance and ethics related communications delivered through these channels reveals an emphasis on information and data security, which correlates to the most frequently reported ethics incidents. The following table indicates the volume of compliance and ethics related communications delivered by topic area in the last three years:

Recent-Year C&E-Related Communications

Topic	2020	2021	2022	Total
DPA	1			1
Annual C&E Training	1	5	6	12
Employee Savings Plan		1	6	7
Cybersecurity	5	21	27	53
Physical Security	1		3	4
Public Officials Policy	1	8		9
Expenditures/Vouchers	3	3		6
Lobbyists		3		3
Political Contributions		2		2
Conflicts of Interest		1		1
No Poaching		1		1
Insider Trading			3	3
COBC			5	5
Privacy			1	1
Total	**12**	**45**	**51**	**108**

Communications in 2021 focused strongly on cybersecurity, with other significant topics including interactions with public officials, lobbyists, and proper expense handing. Management issued messaging related to interaction with public officials twice in 2021, reinforcing public official interaction training delivered during 2020 and 2021. Cybersecurity continued in 2022 as a major emphasis, with physical security, insider trading, and COBC training campaign reminders comprising other focuses.

The next chart shows that compliance and ethics related employee communications increased fourfold from 2020 to 2022.

C&E-Related Communications
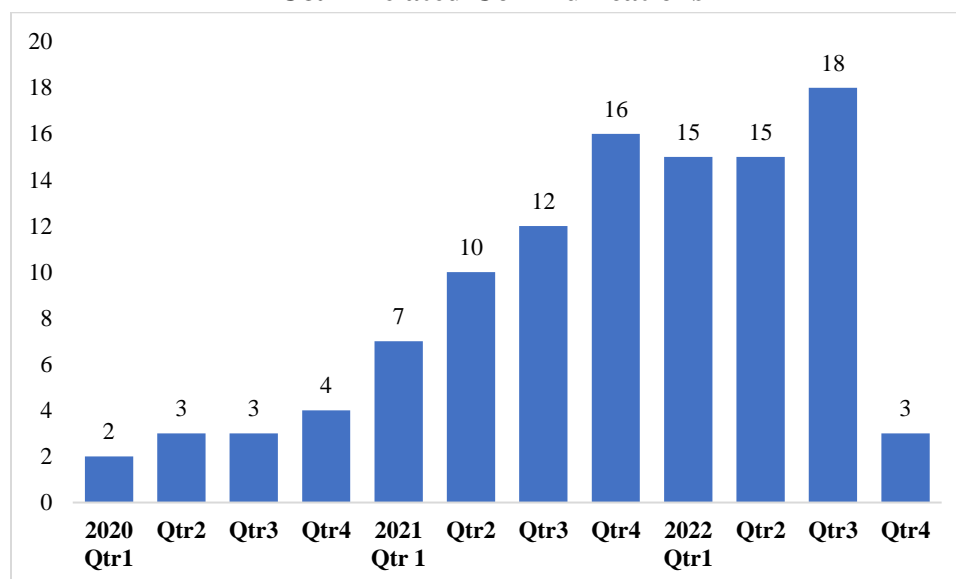
2. *Lobbying, Political Consulting, and Interactions with Public Officials*

Multiple controls changes beginning in mid-2020 address lobbying political consulting and interactions with public officials. They provide safeguards against employment of lobbyists and political consultants who do not provide services in return for their compensation. The mid-2020 changes also seek to control and make transparent requests from public officials for things of value and responses to those requests. These controls have undergone revisions since then to improve their effectiveness, with training programs (like those addressed above in this chapter) that seek to make employees aware of their applicability and their contribution to making them effective.

One of those controls (Exelon Compliance & Ethics Procedure, Due Diligence and Monitoring Procedure for Third Parties Engaged in Political Consulting and Lobbying Activities, LE-AC-PCD8-001) seeks to enhance due diligence over external lobbyists and political consultants. First effective on July 6, 2020, current Rev. 5 became effective June 30, 2022. It requires senior business officials in the business unit affected and EC&E to approve their engagement. The procedure also requires written contracts and written invoices detailing work and services provided. The required contracts prohibit subcontracting by contracted persons and entities and provide defined services scopes and address compliance and ethics obligations. The procedure calls for twice yearly performance reviews of external lobbyists and political consultants, and reporting of their activities to an Exelon board committee and to the Exelon's utilities, including ComEd.

LE-AC-PCD8-001 requires that lobbying and political consulting vendors complete due diligence forms when retained and annually thereafter. We reviewed six forms from ComEd and six from Exelon (three for each entity for each of 2021 and 2022). They address due diligence practices for vendors who provide lobbying and political consulting services. The due diligence forms required

under this policy are distinct from the twice-annual performance reviews required for lobbyists and political consultants.

These forms require vendors to provide:
- Name and Address
- Years under current business name and address
- Corporate or other ownership form
- Other business names used
- Year providing lobbing or political consulting services
- Qualifications to provide such service
- Owner names, addresses, and ownership share
- Names, address, and titles of officers and directors
- Names and addresses of key employees who will provide Exelon services
- Names and addresses of affiliated businesses
- Personnel formerly serving as a company employee
- Service by vendor personnel (or close relatives) with government entities currently or within two years
- Ownership or control of the vendor by a government entity
- Contracts of the vendor with government entities or businesses owned by the government
- Existence of a vendor code of conduct
- Prior criminal charges against the vendor or key personnel or debarment from conducting business with any government entity
- Willingness to certify compliance annually with applicable lobbying and anti-bribery requirements
- Awareness of the Exelon COBC and understanding of the obligation to act ethically and lawfully on Exelon's behalf.

Management also conducts annual and mid-year lobbyist and political consultant performance reviews. These assessments take place according to a standard list of factors:
- Completion of the required annual Due Diligence Questionnaire
- Material changes from previous Due Diligence Questionnaire
- Invoice content consistency with company processes and sufficiency of activity details provided
- Sufficiency of identification of who had contacts with public officials, those officials involved, and contact subjects and content
- Quality of services, including advice and demonstrated expertise relative to expectations
- Sufficiency of reporting of activities under the applicable agreement
- Remaining current with applicable certification and training requirements
- Identification of any internally or externally raised issues regarding performance or other areas of concern (*e.g.*, affecting Exelon reputation)
- Sufficiency of firm information security practices
- Opinion on adequacy of contracted services and conformity to compensation provided
- Recommendation on continuing use of the firm.

Our review of the forms showed substantial addressing of the required areas and completion by and signature of an applicable business unit Government Affairs executive.

Another policy (the Exelon Compliance & Ethics Policy, Interactions with Federal, State and Local Public Officials, LE-AC-POL8-001) also first became effective on July 6, 2020, with its current version (Rev. 5) effective as of June 30, 2022. This policy imposes restrictions on gifts, entertainment, and the provision of other things of value to public officials. The policy also provides for reporting to EC&E and senior business leadership of anything of value provided. The policy requires reporting of all requests, referrals, and recommendations from public officials regarding anything of value. Items of value include more than transfers having direct, immediate monetary value; *e.g.*, direct employment decisions, contracts, vendor referrals, directed charitable giving, preferential customer treatment, and entertainment. Reported interactions and actions taken in response to them undergo review by senior leadership of the business involved and by EC&E and produce regular reports to an Exelon board committee and the Exelon's utility boards.

LE-AC-POL8-001 prohibits "bribery and all other forms of corruption." It directly prohibits "offering, promising, giving or authorizing others, such as lobbyists and political consultants, to give anything of value, tangible or intangible, either directly or indirectly, to any individual – including public officials – to gain an unfair business advantage or to influence improperly an official's decision-making." Public officials for purposes of the policy included elected and appointed officials and candidates at the federal, state, and local levels. The policy defines things of value very broadly and comprehensively.

The policy permits giving some things of value to public officials if not intended to improperly influence official actions. However, the policy requires such givings to be consistent with the requirements and value limits of the jurisdiction involved, occurring infrequently, and not made for an official act performed already or in the future. Even permitted giving of things of value requires reporting to the giver's business unit level Government Affairs organization. That organization must then quarterly report them to EC&E, providing copies to the Business Unit CEO and Exelon General Counsel. The policy also requires accurate reporting and accounting for attendance at meals, entertainment, sporting events, cultural events, business luncheons or dinners, charity events, golf outings, and donations to charities affiliated with public officials.

Another policy (the Exelon Compliance & Ethics Policy, Vendors and Suppliers Affiliated With or Referred, Recommended, or Requested by Public Officials, LE-AC-POL8-003) became effective on July 6, 2020, with current Rev. 4 becoming effective June 30, 2022, also addresses interactions with public officials. It provides for identification of those vendors having financial interests with public officials and close family members and of those vendors about whom public officials have made requests, referrals, and recommendations. Senior business unit leadership and EC&E must approve engagement of such vendors and any engagements made to Exelon and utility boards of directors.

Exelon's Supply organization has incorporated into its vendor due diligence steps questions that seek to identify those covered by Section 2.4 of LE-AC-POL8-003. That section covers vendors (with limited exception for publicly traded companies) who have as an owner a holder of at least a 10 percent financial interest, a director, an officer, or a key employee a person (or close family

member of such person) who is or has been a government official withing two years. Responses to the questions that the Supply organization uses go to EC&E for review when they indicate existence of a covered relationship.

Another policy adopted in July 2020, Exelon Compliance & Ethics Policy, Referrals, Recommendations, and Requests from Public Officials Regarding Employment Decisions, LE-AC-POL8-002, now operates under Rev. 4, effective June 30, 2022. This policy addresses public official influence on company hiring and promotion. It provides for tracking of communications with public officials related to employment decisions, and requires review by senior business officials and EC&E. It disqualifies from employment a close family member of a public official who made requests, recommendations, or referrals. As with other interactions with public officials, communications regarding employment decisions get regularly reported to the Exelon and utility boards of directors.

3. Tracking of Public Official Interactions

EC&E performs quarterly tracking of public official requests, recommendations, and referrals and their disposition. The standard form provided by this tracking identifies the business unit engaged, the date of the initiating communication, the public official involved, the Exelon individual receiving it, a description of the request and the ensuing communications, actions, and decisions made with respect to addressing the matter involved. Additional columns in the form show the status (*e.g.*, closed/open), whether it was accepted, and the rationale for deciding whether to accept the resolution. Our review of the tracking documents found the entries clear in terms of the nature of the communications, any specific request made, responsive actions, and assessment of the reasonableness of those actions. The number of events logged has remained moderate and has fallen somewhat in number in the past year and a half. The numbers of contacts with ComEd personnel did not appear out of proportion with the numbers that appear to have occurred at the other operating companies, whose entries management redacted in the versions supplied to us.

4. Addressing Compliance and Ethics in Individual Performance Evaluations.

Management began in 2022 a process for explicitly incorporating compliance as an element in the annual reviews of individual performance. The change underwent review by the Exelon Board's Compensation Committee and became effective for 2023. The performance management system operates on the basis of annual reviews that address six employee "core competencies":
- Exhibits Courage
- Demonstrates Adaptability
- Promotes and Leverages Diversity, Equity & Inclusion
- Drives Innovation
- Leads, Coaches, and Engages Talent
- Shapes Vision and Strategy.

Those who directly supervise employees measure performance under this and other behaviors and the results drive incentive compensation and personnel decisions (*e.g.*, individual performance improvement programs or promotions).

The revised process changes the definition of the Exhibits Courage category by adding language regarding a commitment to high ethical standards and compliance with the COBC as elements. The change also adds to the behaviors characterizing exhibition of courage the following: "Holds all employees and themselves accountable to the highest, ethical, compliance, and safety standards." A compensation consultant participated in the consideration and development of the change, which management has deemed the approach best aligned with those with whom it competes for talent. The change can operate to reduce or eliminate (based on severity) an individual's incentive payout for failure to comply with Company policies.

5. *Reviews of Performance Effectiveness*

EAS reported at the February 7, 2022 Exelon Board's A&R Committee's meeting a series of Control Environment Review and Observations that had resulted from a review about control environment trends. The review, which followed earlier committee questions on the subject, covered the period from January 2019 through the third quarter of 2021. It encompassed control-related issues, errors, and items during this period, seeking to identify "themes or patterns warranting additional action from management." EC&E participated with EAS in this review. EAS reported to the Exelon Board's A&R Committee that the review did not identify significant areas of concern but did produce observations of recurring causes of "lapses in control execution" and new measures beyond those already taken and placing priorities on existing initiatives to strengthen the control environment.

Much of this review's work focused on financial controls issues and errors (124 of them), but also examined compliance and ethics matters. First, it reviewed eight compliance and ethics issues that had come before the board committee for review. Second, it examined regulatory compliance metrics and ethics investigation data amassed in more than 100 matters, seeking to identify commonalities in root causes.

Lack of control-owner understanding of the full scope of their responsibilities comprised a common theme. The presentation cited ineffective transitions from prior control owners as the source of this understanding gap. The presentation noted work by EC&E with business teams to strengthen onboarding materials and training for those assuming roles entailing compliance control responsibilities. One particular aspect of this effort involved a new "control owner transition entity level control" requiring data reliability validating to form part of onboarding and providing job aids. The presentation concluded with a list of three areas for further improvement:
- Conducting annual reviews of control-related matters to identify patterns and trends and share resulting insights and recommendations
- Providing annual control-owner training to enhance understanding of related roles and responsibilities, addressing validation of data used in control operation
- Performing ongoing root cause analysis to identify any enhancements or measures needed regarding control owner understanding of responsibilities.

Management has reported that it participates in information sharing, including benchmarking with a number of industry groups:
- EC&E
  - Edison Electric Institute (EEI) Cybersecurity Law Group and Data Working Group

- o Deloitte Utility Chief Compliance Officer Roundtable
- o KPMG Chief Compliance Officer Exchange
- o Navex Global Advisory Committee
- o American Gas Association, Cybersecurity Task Force
- o EEI Cyber Mutual Assistance program, Analysis & Resilience Center (ARC) Legal Subcommittee
- o International Association of Privacy Professionals (IAPP)
- o International Legal Technology Association (ILTA)
- o American Records Management Association (ARMA)
- o Ethics & Compliance Initiative (ECI)
- o Society of Corporate Compliance and Ethics (SCCE)
- EAS
  - o EEI
  - o Gartner
  - o Deloitte
  - o Ernst & Young
  - o Association of Certified Fraud Examiners (ACFE)
  - o American Institute of Certified Public Accountants (AICPA)
  - o Institute of Internal Auditors (IIA)
  - o Information Systems Audit and Control Association (ISACA)

ComEd has worked with an outside firm (Culture Partners, formerly known as Partners in Leadership) since 2019 to address attitudes and beliefs that underly the utility's "culture," addressing factors such as "trust, teamwork, communication, and ethics and integrity." The consultation has not focused narrowly on compliance and ethics or its organization, resources, and operation. Nor has it assessed ComEd or recommended improvements. Its approach assists organizations in identifying current cultural attributes and desired shifts going forward.

The next depiction shows the "Cultural Beliefs" defined by utility leadership following 2021 workshops facilitated by the consultant. Management describes these beliefs as those "ComEd wants its employees to exhibit to foster the strategic business outcomes it has identified." These beliefs focus significantly on behaviors directly relevant to compliance and ethics. By comparison, the same set of beliefs identified in 2022 take broader expression, focusing on individual initiative and creation of a future benefitting customers, communities, and employees.

ComEd Leadership's Expression of 2021 Cultural Beliefs

Our Cultural Beliefs®

Trust Generously
I extend, value, and actively earn trust through open and honest interactions.

Stronger Together
I embrace collaboration, break down silos, and share successes and failures that power us forward.

Listen First
I create a safe and respectful place, listen first, and accept and provide transparent feedback.

Take Initiative
I create with freedom, take chances, and build on imperfection and failures.

Character Matters
I hold myself and others to the highest standard in behaviors and outcomes.

Advance Equity
I work to achieve equity and drive inclusion in all aspects of our work.

6. Employee Engagement Surveys and Exit Interviews

Exelon periodically conducts surveys of employees to assess corporate culture and measure employee engagement. The most recent, 2022 survey, which followed one undertaken in 2019, is the first since the DPA. Exelon leaders who have eight or more employees completing the survey receive results that include leader reports and dashboards identifying key strengths, opportunities, and group responses to each survey question. Additionally, Human Resources plans to meet with each leader to review and discuss how to make effective use of survey information.

The 2022 Employee Engagement Survey contained eight questions relating to ethics and compliance. The eight included five new questions added to explore more directly employee feedback regarding the corporate compliance program. EC&E worked with Human Resources and in consultation with the survey vendor to identify additional questions from the consultant's standard bank of questions, with benchmark data available for comparison.

The next table summarizes ComEd employee favorability ratings on the eight questions relating to ethics and compliance, comparing them with Exelon Overall and External Norm (benchmarking). The fourth through eighth of the questions shown reflect the additions for 2022.

2022 Engagement Survey Ethics-Related Questions

Question	Favorability		
	ComEd	**Exelon**	**External**
1. Know where to go for assistance if an ethical situation arises	88	83	N/A
2. Employees not pressured to compromise on ethical or compliance issues	80	81	N/A
3. Able to identify issues that may result in potential non-compliance	86	87	92
4. Can report unethical practices without fear of retaliation.	75	77	77
5. Company is committed to ethical business practices.	76	81	85
6. Management team committed to providing a respectful workplace.	83	84	N/A
7. Confidence that misconduct concerns raised will be addressed	78	78	81

8.	Would report unethical behavior on becoming aware of it	88	90	92

ComEd employee favorable ratings generally conformed to those of Exelon as a whole, except for the highlighted row (commitment to ethical business practices). That question produced ComEd favorability ratings more substantially below those of Exelon as a whole and even further below those of the external norm.

Trending from 2017 through 2022 for the first three questions reveals that favorable ratings remained constant for question 2 and declined slightly for questions 1 and 3.

Trends in Ethics-Related Survey Responses

Question	Favorability		
	2022 ComEd	**2019 ComEd**	**2017 ComEd**
1. Know where to go for assistance if an ethical situation arises	88	90	90
2. Employees not pressured to compromise on ethical or compliance issues	80	80	80
3. Able to identify issues that may result in potential non-compliance	86	87	87

EC&E had underway at the time of this report's preparation an analysis of survey results to identify potential targeted outreach and culture initiatives. Potential outcomes include action plans for group leaders with weaker ethics scores and targeted communications, training, and coaching.

In addition to the biennial employee engagement survey, Exelon conducted a National Safety Council Survey and a "Culture of Inclusion" survey in 2020. Additionally, Exelon conducts "pulse" surveys (fewer than 14 questions) periodically to gather feedback on narrow topics like inclusion culture.

Exit interviews offer another opportunity to secure information on compliance and ethics issues and concerns. Human Resources personnel decide, upon reviewing interview results, whether they contain information that should undergo EC&E review. Exit interviews to date have reportedly provided only limited compliance and ethics insights. The 2022 compliance risk assessment process identified exit interviews as an opportunity for identifying ethics concerns or needs for investigations. EC&E's 2023 initiatives include collaboration with Human Resources to review exit interview questions for coverage of questions to ensure they adequately cover compliance and ethics topics and for formalizing the process for escalating information learned and for providing insight on compliance and ethics matters.

7. *Incorporating Lessons Learned*

Exelon does not employ a documented process for incorporating lessons learned from recent compliance and control incidents and audit engagements or other examinations. It cited undocumented meetings between EC&E and EAS with ComEd as part of ongoing work as means for conveying lessons learned. Other means for transferring knowledge and insight based on such experiences include:

- Meetings and training sessions with business teams that follow investigations or audit engagements
- Generally weekly meetings to address implementation of policies covering interactions with public officials
- Discussions by Exelon's EVP CA&R and CC&EO during attendance beginning in early 2022 at the ComEd's monthly senior staff meetings
- ComEd Risk Management Committee meetings
- EC&E and EAS interaction during investigations and audit engagements.

EC&E coordinates weekly meetings addressing interactions with public officials. The meetings grew from identified needs for collaboration with business teams primarily responsible for implementing new controls over interactions with those officials. The needs included producing agreement on timing and sequence of control tasks, identifying potential implementation enhancements, considering training content and recipient sufficiency, and promoting consistent completion of remediation efforts across Exelon's business units. The CC&EO attends the weekly meetings, generally along with designees from operating company Government Affairs departments and EAS. Operating company Training department personnel have attended some meetings as well.

We selected the last meetings for each quarter of 2021 and 2022 to sample. The meetings have not operated under formal agendas or produced minutes. Reported discussion topics include lobbyist activity reports, "anything-of-value" reporting, lobbyist performance reviews, pre-posting review of lobbyist and political consultant information annually placed on the corporate website, due diligence questionnaire processes, contracts, and employment and vendor referral policies. Management reported attendees for the meetings sampled as:

- March 30, 2021: Exelon's CC&EO, Principal Business Analyst (reporting to the ComEd Vice President of Government Affairs), two from PECO and two from PHI Government Affairs, one from Exelon BSC Government and Regulatory Affairs and Public Policy, and two from EAS
- June 29, 2021: Exelon's CC&EO, the same Principal Business Analyst from ComEd, one from BGE Government Affairs, two from PECO and two from PHI Government Affairs, one from Exelon BSC Government and Regulatory Affairs and Public Policy, and three from EAS
- September 28, 2021: Exelon's CC&EO, the same Principal Business Analyst from ComEd, a Senior Training Specialist and a manager of training from ComEd, one from PHI Training, one from BGE Government Affairs, two from PECO and two from PHI Government Affairs, one from Exelon BSC Government and Regulatory Affairs and Public Policy, and two from EAS
- December 21, 2021: Exelon's CC&EO, the same Principal Business Analyst from ComEd, two from PECO Government Affairs, one from Exelon BSC Government and Regulatory Affairs and Public Policy, and two from EAS
- March 30, 2022: Exelon's CC&EO, the same Principal Business Analyst from ComEd, a Business Analyst from ComEd, two from PECO and two from BGE Government Affairs, four from EAS, and two from Constellation

- June 29, 2022: Exelon's CC&EO, the same Principal Business Analyst from ComEd, the same Business Analyst from ComEd, two from PECO Government Affairs, one from Exelon BSC Federal Government Affairs, three from EAS, and seven from Constellation
- September 29, 2022: Exelon's CC&EO, the same Principal Business Analyst from ComEd, the same Business Analyst from ComEd, one from PECO Government Affairs, one from BGE Government Affairs, one from PHI Government Affairs, one from Exelon BSC Federal Government Affairs, four from EAS, and three from Constellation.

8. *"Hot Spot" Reviews*

EC&E has conducted reviews of ethics investigation trends and hot spots in the spring of 2021 and of 2022, sharing results with the Exelon board's now-combined A&R Committee, with Human Resources personnel, and the operating company risk management committees. This report's Appendix Nine: *Hot Spot Review Summaries* illustrates reporting that addresses issues that include those subject to hot spot reviews.

9. *Post-Incident Assessments and Root Cause Investigations*

An Exelon Utilities Corrective Action Program (CAP) seeks to identify the lessons learned from operating experiences to identify corrective actions to prevent quality-affecting events from reoccurring. The program addresses a broad range of experiences, with a principal focus on circumstances that typify complex utility field performance (*e.g.*, anomalous equipment operation, methods applied or misapplied by personnel). CAP operates under a comprehensive procedure (Exelon Corrective Action Program (CAP) Process Exelon Utilities Process EA-EU-P105, Rev 9) that governs incident description, condition reports, document preservation, apparent cause evaluations, root cause investigations, management review (by the Exelon Utilities Management Review Committee and functional area management), commonality of causation among multiple incidents, corrective action identification and implementation, corrective action tracking and completion, oversight of more significant events and corrections, and condition trend analysis.

A procedure of comparable scope and detail (Exelon NERC Internal Investigations Procedure, RC-AC-203. Rev. 6) sets forth formal processes for addressing from initial inquiry through investigation closure potential instances of non-compliance with Reliability Standards or Exelon NERC policies and procedures. The Exelon IT organization employs another, similarly comprehensive procedure (IT Corrective Action Program Procedure, IT-DO-211-1, Rev. 2.3) to guide documentation and resolution of issues affecting conditions quality.

We reviewed the list of more than 750 apparent cause evaluations (ACEs) and root cause investigations (RCIs) involving ComEd operational, environmental, and safety events from January 1, 2019, through October 1, 2022. All concerned operations and safety activities and incidents - - a result consistent with the program's nature. Our request for documents addressing 2020 through 2022 post-incident assessments conducted by EC&E, EAS, or CIT produced information about four such reviews, excluding any associated with the operational, environmental or safety events discussed immediately above. It also excluded any such assessments conducted under attorney-client privilege.

The first of them came under an EAS 2021 ComEd Distribution Operations Suburban Timekeeping Review (dated October 2022). This review came following an investigation into allegations of inaccurate recording of time to capital versus O&M orders by some ComEd personnel. The specific allegations involved changing time sheet entries to inflate the amounts of work assigned to capital and misuse of blanket work orders to report inaccurate capital time charges. This review followed an earlier review by EC&E, using Security department personnel, who had found after the fact time changes, but without apparent impropriety or inaccuracy. This review produced similar findings, but made recommendations regarding expectations about time sheet recording and approval, associated training, quarterly review of blanket work order charges, and the pressures generated by setting and communicating capital targets.

The second post-incident assessment provided came under an EAS/Constellation Audit Services, 2022 TSA 3rd Party Access Credentials Engagement Summary. Performed under the Transition Services Agreement with Constellation Energy, this review followed allegations that contractors having Exelon network access shared their network credentials within their team to facilitate their work. Finding measures already reasonably strong, this review generated recommendations to enhance them by requiring vendor codes of conduct and security policies to prohibit credential sharing and safeguard credentials and to evaluate device sharing limits as a means for reducing credential sharing risk.

The third post-incident assessment management provided came under February 2021 EAS, IT Invoice Review Investigation. This review followed an anonymous report through the ethics hotline. The review found IT invoices inappropriately recorded in 2020 for work to be performed in 2021. Examination of other invoices found the concern limited to IT. The review also failed to disclose systemic or widespread control issues, but rather "lack of understanding of accounting rules and a weakness in the 'tone at the top' component of the IT control environment related to applying the proper accounting." The review produced recommendations to enhance existing Accounting training and to provide support and guidance designed to set clear IT organization expectations to prevent recurrence.

The fourth document management provided addressed EAS Control Environment Review and Observations. This report's Chapter Seven: *Finance and Accounting and Internal Control Environment* addresses it.

10. Political Action Committee Reviews

EAS undertook a 2019 Political Action Committee (PAC) Engagement, which covered the 2017 and 2018 years, and addressed the following risks:
- Reputational damage from expenditures involving political candidates not aligned with Exelon interests
- Process and control breakdowns from lack of training and education for new PAC managers
- Poor spending decisions due to lack of appropriate board member makeup
- Penalties from exceeding expenditure limits
- Unauthorized, inaccurate, or prohibited contributions
- Fraud from poor monitoring or duty segregation.

The report of this engagement listed a number of "key themes and insights":

- Remediation of two low risk findings from 2017 audits related to disposal of PAC in accord with company policy
- An active PAC manager "culture of active engagement" to drive efforts on legislative issues and policies important to Exelon
- Collaboration of PAC managers on candidate fundraising efforts, best practice sharing, and identification of efficiencies in PAC operations
- Strong management and monitoring of relationship with third party service provider, Comerica Bank
- Executive Committee request for PAC contribution eligibility changes to grow PAC membership and better align with peer companies
- Streamlining of EAS testing through analytics and trends to enhance compliance with regulatory requirements/limits and identify transactions bearing scrutiny.

EAS found PAC activities sufficient to ensure compliance, but identified several opportunities for improvement:

- Candidate Due Diligence: Update PAC bylaws to incorporate a due diligence process for identifying, vetting, and evaluating candidates to ensure alignment with PAC strategy and to outline steps required when discovering improper candidate conduct
- Roles and Responsibilities: Create PAC job aids and document operating procedures to support effective and efficient transitions to new PAC managers upon onboarding
- Personnel Resource Constraints: Evaluate and address PAC managers' workloads that may cause non-PAC responsibilities to ensure attention to efforts to "drive the PACs in their strategic direction."

The next, similar review, performed under a biennial cycle, produced the June 30, 2021 Political Action Committee (PAC) Engagement report. It addressed the 2019 and 2020 years, assessing the same risks as did the preceding examination. This report also summarized key insights:

- In response to opportunities identified in the preceding report, ComEd and some other Exelon PACs had updated bylaws, PAC managers indicated enhanced monitoring and scrutiny over candidate vetting, and ComEd had plans to complete before year end enhanced reputational background checks
- Enhanced PAC administrative support, following observations from the preceding report about resource constraints, was expected to be in place by the end of 2021
- Active PAC manager collaboration and engagement on issues important to Exelon reportedly continued since the preceding report
- New PAC managers received appropriate resources to provide them with sound understanding of responsibilities
- The third party (Comerica Bank) who had provided PAC check disbursement, and supported filing state and federal PAC reports planned to exit that business, instigating an effort to replace it
- The Exelon PAC indicated plans to increase solicitation of employee contributions in line with Federal Election Commission (FEC) guidelines.

The report found PAC activities effective in ensuring compliance with legal and regulatory requirements and offered no opportunities for improvement.

D. Conclusions

1. The approach to identifying and the means of providing compliance and ethics training and communication is appropriate.

EC&E has clear responsibility for compliance and ethics training and communication and regularly addresses needs and effectiveness in meeting them. A sound array of training requirements for all employees exists and undergoes delivery through processes that ensure completion, include confirmations of understanding and acceptance of expectations and requirements, and is annually refreshed. A variety of communications means reinforce the importance and individual accountability for compliant and ethical behavior.

The workshops that underlie the annual risk assessment process have considered the knowledge and experience requirements of those throughout Exelon who require particular knowledge. They include, for example, the SMEs who have particular roles in program execution and those whose job responsibilities require special compliance knowledge. Those workshops have paid substantial attention to identifying how to ensure that knowledge gaps among these personnel are closed by providing special training. The recent separation of Constellation from Exelon has been recognized as a strong contributor to knowledge gaps that require closure.

2. Compliance Risk Assessment Workshops identified the need for more training and more targeted compliance training. *(See Recommendation #1)*

While substantial and continuing in addressing specialized training needs, the process has produced some that remain to fill. Findings from the 2021 Compliance Risk Assessment Report identified the need for more compliance training and more targeted compliance training. Improved compliance training was mentioned in nearly every risk domain meeting and identified as the most frequently identified need during the workshops. Two categories of role-based compliance training were identified as requiring improvement:

- The need to ensure that employees moving into roles with specific compliance responsibilities receive tailored training for their roles as soon as possible after beginning the role.
- Exelon should provide consistent, periodic training to employees on compliance issues relevant to their roles and ensure that this training is regularly refreshed and that resources are available to employees with questions between training sessions.

Compliance Risk Workshop feedback suggested that aside from the mandated all employee training, the quality and implementation of compliance training within the business units varies widely and that not all groups ensure that employees new to a position receive job relevant compliance training during onboarding. Additionally, workshops found that LMS as the training delivery platform has no corporate owner and development within LMS is difficult for organizations without LMS expertise. We credit the identification of the needs that exist, but emphasize the need for continuing efforts to close them and to recognize that gaps will continue to exist as turnover occurs. It appears that 2023 will prove a year of significant attention to

expanded training needs assessment and delivery. Despite the lack of specific reason to question carry-through, it remains worthwhile to highlight the importance that efforts not lag, given the degree to which risk assessment workshops have highlighted needs in this area.

3. EC&E has planned a number of 2023 initiatives to expand compliance-related communications, but does not prepare or maintain a compliance and ethics communications plan. *(See Recommendation #2)*

As part of its January Compliance Update to the Exelon A&R Committee, the Compliance and Ethics office identified three initiatives to expand compliance communications:

- Develop a format and cadence for communications to employees and managers regarding compliance and control issues. Consider communications regarding COBC incidents and sanctions, as well as insights from significant compliance incidents and the risk assessment process, and significant regulatory developments
- Strengthen and expand the compliance-related reference materials available to employees through the Compliance and Ethics intranet site
- Continue to communicate about the importance of transition planning and knowledge transfer for employees with compliance responsibilities, and to share the knowledge transfer template.

These initiatives are sound, but EC&E does not have a formal communications plan in place for ComEd. Some communications are conducted on a regular cycle, such as those pertaining to annual ethics training. Other communications are initiated as needed relating to policy changes, specific concerns, or best practices.

The prior version of the Corporate Compliance Policy (Revision 3) required the Compliance and Ethics office to maintain a three-year compliance and ethics training awareness communications plan overseen by the Ethics and Compliance Steering Committee to ensure effective support of the program. However, when asked to provide the three-year compliance and ethics training awareness communications plan, Exelon stated that "Compliance & Ethics previously determined that maintaining a three-year training schedule did not add significant business value, and as a result, does not have a training and awareness communications plan for 2019-2022." Additionally, Exelon discontinued Ethics and Compliance Steering Committee oversight in February 2021. The recent revision of the Corporate Compliance Policy (Revision 4) removed the Ethics and Compliance Steering Committee responsibilities including the three-year compliance and ethics Training and Awareness Communications plan.

4. EC&E does not survey training participants about the effectiveness of compliance and ethics training. *(See Recommendation #3)*

Exelon considers compliance training to be effective "when it helps employees fulfill their compliance obligations, avoid conduct that violates legal, regulatory, and ethical requirements, and recognizes and reports potential violations." While Exelon reported using several other methods to assess the effectiveness of the compliance and ethics training, it does not conduct any surveys of training participants at the conclusion of training.

5. **The lack of tracking data regarding employee online access to policies and communications fails to take advantage of useful data about those policies and communications.** (*See Recommendation #4)*

EC&E does not collect or analyze data on employee access to specific compliance and ethics policies and communications. It does not use data such as website clicks or visits, time spent with resources, open rates for email, topic visits, and intranet search terms.

6. **EC&E has adopted a series of procedures that effectively address compliance and ethics risks associated with lobbying, political consulting, and public official interaction.**

Four policies became effective in mid-2020 and have undergone adjustment since, as experience in their execution has lengthened. All four, however, continue to apply essentially the same controls and limits. They seek to preclude engagement of lobbyists and political consultants who can secure compensation without providing compliant services. They also impose limits on and increase the transparency of requests from public officials for things of value. EC&E has accompanied them with specific training for employees potentially engaged in the activities and circumstances the policies address. We found their scope sufficiently broad, their requirements clear, their definition of activities and conduct subject to them concise and appropriate. The procedure restricting and requiring reporting of things of value to public officials includes a sufficiently expansive and clear definition of such things, and of employee reporting regarding them.

7. **Compliance with lobbying, political consulting, and interaction with public officials policies has undergone appropriate monitoring, with resulting documentation demonstrating conformity with requirements.**

In the case of lobbyists and political consultants, we found evidence of required approvals prior to engagement and of required reviews of contract existence and content, written invoices, and absence of prohibited subcontracting. We also found evidence of consistent and reasonably timely performance of and sign-off on required conduct of performance reviews. We found similar evidence with respect to timely completion and review of the separately required lobbyist and political consultant due diligence forms.

In addition, we found that the Exelon Supply organization has incorporated into its standard vendor due diligence steps measures consistent with the procedure addressing Exelon entity relationships with vendors who have prescribed connections with present or former government officials.

We found tracking of public official requests, recommendations, and referrals complete, with clear and consistent entries evidencing review of responses to them for compliance with expectations and requirements.

8. **ComEd's and Exelon's annual employee performance review process changed to include consideration of compliant and ethical behavior starting in 2023.**

The change added to the definition of "Exhibits Courage" (one of the six "core competencies" under which supervisors and their reports mutually conduct annual performance evaluations). The addition makes commitment to high ethical standards and compliance with the COBC an explicit

evaluation element. The results of these evaluations will affect incentive payouts based on 2023 performance and results. The percentages of base salary targeted by those incentives increase according to position classification, making the consequences higher for personnel holding more senior positions.

9. **EC&E and Human Relations have cooperated effectively in using employee engagement surveys and have plans to do the same for exit interviews in addressing compliance and ethics commitment, accountability, and trust "penetration;" those efforts should continue to be viewed as providing critical indicators.** (*See Recommendation # 5*)

The addition of a series of compliance and ethics questions to the regular employee engagement surveys commissioned every two years has given EC&E and Human Resources the opportunity to identify particular aspects of compliance and ethics attitudes and understanding that may lag. More importantly, it has helped to expose particular locations or work groups that lag other in terms of understanding of or confidence in what are expressed as Exelon objectives or the objectivity and regularity with which investigation and resolution of incidents and allegations may proceed.

EC&E and Human Resources worked with the contractor who undertook survey work to expand the applicable questions. Management needs to generate information that will allow sufficient trending from prior survey results and benchmarking with other entities conducting similar surveying. Moreover, the survey encompasses a wide range of subjects beyond compliance and ethics, creating a risk of responder "fatigue" should the question list become too long. Nevertheless, the gaps that appear to exist among locations and work units raise the issue of whether some of the more nuanced questions among those considered for, but not used in the most recent survey, would prove more insightful enough to address those differences to overcome limits they may impose on trending across Exelon surveys or benchmarking.

Efforts underway at the time of preparation of this report engaged EC&E and Human Resources in consideration of adding compliance and ethics subjects or inquiries to exit interviews with departing personnel. Again recognizing the risk of overburdening a process that seeks information across a range of subjects and adding whatever other concerns may apply in addressing matters potentially sensitive from another perspective, it seems clear that adding compliance and ethics questions may produce useful insights.

10. **Exelon applies a broad range of lessons learned inquiries in assessing compliance program effectiveness.**

The workshops that lead to annual compliance risk assessments directly consider and plan changes that rely in major part on past experience. The employee engagement surveys also add insights likely more general, but nevertheless useful. Hot Spot reviews provide additional insights. The Post Incident Assessment and Root Cause Investigations, while largely directed at operational and field activities also provide a source for identifying recurring incidents that may have compliance implications.

E. Recommendations

1. Actively pursue implementation of outstanding training recommendations. (*See Conclusion #2*)

Compliance Risk Workshop feedback has indicated, apart from mandated all-employee training, the quality and implementation of compliance training within the business units varies widely and that not all groups ensure that employees new to a position receive job relevant compliance training during onboarding. Additionally, workshops found that LMS as the training delivery platform has no corporate owner and development within LMS is difficult for organizations without LMS expertise.

Several recommendations and key observations related to compliance and ethics training and communications remain open or have only recently been started.

EC&E identified three thematic priorities for its 2023 Compliance & Ethics Workplan, as part of its January 2023 Compliance Update to the Exelon Board's A&R Committee: Compliance Culture, Compliance Training, and Knowledge Management. Within the Compliance Training theme, EC&E identified 2023 initiatives that address most outstanding training and communications recommendations and key observations from Compliance Risk Workshops conducted through 2022:

- Compile and prioritize a list of training needs identified through the compliance risk assessment process
- Collaborate with business teams to identify owners and timetables for development of prioritized compliance training, and if necessary, escalate barriers to training implementation
- Convene stakeholders to identify a business owner for LMS and to define responsibilities of that business owner
- Develop LMS training on political compliance requirements for personnel on teams for which live training is not required, or joining teams between live training cycles
- Update and deliver anti-fraud training to audit staff and business teams.

EC&E should actively pursue the implementation of these recommendations to further improve compliance and ethics training. As noted in Chapter 5: *Compliance and Ethics Risk Assessment* there has been some lag in pursuing recommendations arising from the compliance risk assessment process. Without questioning management's commitment to diligent pursuit of its 2023 agenda, it is important to underscore the importance of prompt action here.

2. Develop a structured plan for addressing compliance and ethics communications. (*See Conclusion #3*)

Communicating compliance and ethics effectively to employees, third parties, and stakeholders is crucial for the success of the program and creating a culture of compliance and ethics within the organization. It is important to have a communication plan in place to organize and articulate the compliance and ethics messages. A coherent and structured plan should integrate communications into selected channels as part of the regular workflow, instead of a series of ad-hoc events.

As part of its January Compliance Update to the Exelon Board's A&R Committee, EC&E recognized the need to develop such a plan when it introduced the 2023 initiative described in conclusion #3. We have no reason to question whether EC&E will pursue the completion of this initiative to develop a structured communications plan to reinforce ethics training and awareness diligently. Nevertheless, and particularly given continuing examination of ComEd compliance and ethics by ICC staff, it is important to underscore pursuit with diligence as a matter likely to warrant attention in such continuing examination.

3. **Incorporate training participant surveys or focus groups and follow-up knowledge checks to measure the effectiveness of compliance and ethics training and communications.** (*See Conclusion #4)*

Effective compliance and ethics training helps employees understand the company's policies and expectations, which can reduce the risk of compliance violations and help create a culture of ethical behavior within an organization. Measuring compliance and ethics training effectiveness through post-training sessions with a well-constructed sample of participants can help organizations determine if training efforts are having a positive impact, and if not, identify areas for improvements. For instance, assessment of training effectiveness can help identify areas where employees may be unclear on policies, allowing the company to provide further training to clarify understanding.

Exelon should ask for feedback from compliance and ethics training participants as to how they viewed the quality of training and whether they fully understood the content. Feedback can be gathered through post-training surveys or through formal focus groups.

In addition to the knowledge checks included during online training, Exelon Compliance and Ethics should employ a knowledge check some months after training to measure training comprehension and retention. Follow-up targeted training and communication can then be used to increase retention.

Additionally, during the Workplace Conduct risk domain workshop held on June 23, 2022, participants recommended investigating the use of surveys or focus groups to measure the impact and effectiveness of training and communications. This recommendation has yet to be assigned or started.

4. **Develop a system for tracking compliance and ethics communications and employee access to policies to gain a deeper understanding of the topics that draw the attention of employees.** (*See Conclusion #5*)

To gain a better understanding of employee compliance and ethics interests and concerns, EC&E should explore collecting statistics on employee access to specific compliance and ethics policies and communications. It should collect and analyze data such as website clicks or visits, time spent with resources, open rates for email, topic visits, and intranet search terms. By gathering this information, EC&E can gain valuable insights into how employees are utilizing and engaging with EC&E resources and communications campaigns and use the data to improve and enhance these resources.

5. **Continue to evaluate the optimum set of compliance and ethics questions to employ in future employee engagement surveys and identify a set of related subjects for use in those exit interviews wo which they may apply.** (*See Conclusion #9*)

A planned EC&E and Human Resources analysis of compliance and ethics insights from the most recent employee engagement survey will inform planning the next survey's questions, in order to tailor them to providing the most useful information at that time. A review of the questions considered for the last survey shows some more nuanced ones not selected to date, but possibly more insightful depending on circumstances as the next survey nears.

Additionally, EC&E and Human Resources should close promptly on how to address compliance and ethics in future exit interviews, as appeared to be the contemplated approach as we drafted this report.

Chapter Six: Reporting and Pursuit of Potential Violations

A. Chapter Summary

This chapter provides the results of our examination of how Exelon provides for the reporting of potential compliance and ethics violations or concerns and their pursuit and resolution. It includes a treatment of the processes for raising questions seeking information about compliance and ethics policies, procedures, practices, and activities and for responding to them. One of the three leads reporting to the CC&EO (AGC**B**) heads the EC&E Ethics Office, the group principally responsible for the activities this chapter addresses. This Report's Chapter Two: *Compliance and Ethics Program, Organization, and Resources*, describes this group's responsibilities more extensively.

We found comprehensive and sound the three principal policy and procedure documents that govern and guide the processes related to pursuit of allegations and concerns and the provision of compliance and ethics related information. They specifically assign responsibilities and describe the processes for reporting potential violations, investigating them, and resolving them. Policies oblige employees to report potential violations promptly and in good faith, in turn assuring reporters that management will tolerate no retaliation for making such reports. A proper range of reporting methods exists, supporting anonymity where requested by the reporter. The methods include an Ethics HelpLine available for intranet, telephone, or public web access and operated by a widely used third-party contractor. Reporters can also make reports by direct contact to EC&E, Legal, Human Resources, or the applicable manager. All reports go to the Ethics Office.

This documentation ties to COBC and SCOC expressions of expectations, requirements, accountabilities, and consequences regarding reporting, anonymity, no-retaliation assurances, consequences for retaliation, and potential ramifications for violations substantiated after investigation and resolution. The documentation permits requests for anonymity to be overridden when required by "legal, safety, and security concerns." It does not, however, provide needed guidance in describing what nature or severity those concerns must attain or in processes for controlled or moderated consideration of their sufficiency.

The Ethics Office employs a closed system for logging reports, actions taken to pursue them, and summaries of their resolution and responsive actions (*e.g.*, none, coaching, discipline, termination). This system drives the appointment of those assigned to investigate or otherwise pursue each report, manages communications about the matter involved, houses investigative and other documentation accumulated, and ultimately feeds the reports that EC&E leadership makes to the boards of directors of Exelon and ComEd. EC&E's description of means and controls to limit system access to and require proper use (*e.g.*, entry of required information) are sound, but not documented. Their significance warrants the creation of written procedures regarding access control. Well-experienced outside assistance in system development and in a fairly recent enhancement have produced a system whose design considered controls over unauthorized use both by those who have compliance and ethics roles and others within and outside Exelon entities. No unauthorized access or attempts to gain it have been observed, but there have been no tests designed to verify that the system remains sufficiently protected against them. Periodic tests of controls preventing unauthorized use or inappropriate use by authorized persons should become routine.

EC&E members directly participate in many investigations and provide oversight of others, whose investigative teams EC&E designates. The members of those teams come from a broad range of other Exelon organizations, as dictated by the nature of each investigation's scope. Members from those other organizations available for assignment to pursuit or investigation of logged matters must have investigative experience. A range of available training supports development of investigative skills. Many have certifications attesting to investigative capabilities. The members of a Human Resources "CIT" team are available for assignment to where expertise or experience in human resources issues or concerns proves beneficial.

We found the investigative process well designed, timely executed, and sufficiently documented. Results we examined appeared consistent with the information recorded. We found required reporting to the Exelon Board's A&R Committee and to the ComEd Board of Directors concise yet supported by appropriate detail, and timely.

Matter logging in the investigation database uses a customizable system provided by a leading outside vendor. The system provides a repository for information developed during pursuit and investigation and includes entries for key milestones, such as disposition and responsive actions, including job actions for those involved. Substantiated allegations undergo multi-disciplined review (Human Resources, management in the unit involved, investigators, EC&E, and Legal) to seek consensus on corrective actions and discipline. We established a random sample of entries on matters covering the full range of categories the system employs. Our review of that sample found the investigative process in each case as thorough as described circumstances appeared to warrant, with no indication of any lack of objectivity or of timely action. Resolutions and actions (including discipline and termination) were consistently entered and showed no indication of inconsistency with or disproportion relative to the factual information entered.

B. Background

A sound compliance program must effectively pursue allegations and concerns. That pursuit requires a thorough, objective, timely-executed investigative process carried out by experienced investigators empowered to secure personnel cooperation and document and other information access. It should operate in ways that protect the identity of reporters who request it and of those who cooperate in supplying information. The process should proceed with dispatch, but without sacrificing completeness, to clear conclusions about the consistency between actions, behaviors, and circumstances found on the one hand and compliance and ethics requirements and expectations on the other hand. It should include an objectively applied process for determining individual consequences for those found failing in meeting those requirements and expectations. It should also identify systemic or other factors that have contributed not just to failures that actually occurred but also to others found to be at substantial risk of occurring. If should also produce comprehensive logging and reporting for use in managing investigations and related aspects of the compliance program and in generating regular reports to boards of directors for use in overseeing compliance program execution, in gauging objectivity in execution, and, where required, more detailed examination of conduct more serious in nature or engaging higher levels of management.

We examined the complaint, concern, and question intake processes and measures used to preserve confidentiality for those seeking it. We examined responsibility for and measures employed to log matters raised, assign them for pursuit or investigation, and ensure sound documentation of the investigation process. We examined methods for keeping that process confidential for initial reporters and for those who cooperate by providing investigators with information. We reviewed the means for identifying, training, and assigning investigators, and for ensuring the timeliness, effectiveness, and objectivity of their work. We reviewed a significant sample of investigations conducted for effectiveness, documentation completeness, timeliness, and determinations of outcomes and actions taken (individual and systemic) in cases where investigations substantiated in whole or in part allegations giving rise to them.

Our examination of compliance and ethics enforcement and disciplinary measures considered guidelines established by the U.S. Department of Justice Criminal Division to evaluate corporate compliance programs and placed particular emphasis on items relating to enforcement and discipline in Attachment B, Corporate Compliance Program, of the Deferred Prosecution Agreement. Specifically, Attachment B states that "ComEd will implement mechanisms designed to effectively enforce its compliance code, policies, and procedures, including appropriately incentivizing compliance and disciplining violations."

Exelon's employee and supplier codes of conduct (COBC and SCOC) provide primary enforcement governance, with the following documents providing detailed practices and procedures:

- *Corporate Compliance Program* (LE-AC-20 Revision 4)
- *Reporting Potential Violations of the Code of Business Conduct and Supplier Code of Conduct* (LE-AC-204 Revision 3)
- *Investigating and Resolving Alleged Violations of the Code of Business Conduct* (LE-AC-205 Revision 3).

The *Corporate Compliance Program* outlines compliance program purpose, key elements, and roles and responsibilities. (See this report's Chapter Two: *Compliance and Ethics Program, Organization, and Resources*). The *Reporting Potential Violations of the Code of Business Conduct* document addresses reporting, investigation, and resolution of potential COBC violations. Its purpose statement states that:

> *Employees have a responsibility to report promptly and in good faith any activity that potentially violates any laws, regulations, company policies and procedures, or Exelon's Code of Business Conduct ("COBC") or Supplier Code of Conduct ("SCOC"). Exelon's success in achieving legal and ethical compliance depends on each employee and stakeholder not only conducting their responsibilities in accordance with the law and the COBC, but also by reporting matters that raise potential compliance or ethics issues. This procedure applies to allegations or concerns that any law, regulation, company policy, or any provision of the COBC or SCOC has been violated or has not been properly followed or applied. The procedure set forth in this document describes the types of concerns employees are expected to report and how to do so.*

The *Investigating and Resolving Alleged Violations of the Code of Business Conduct* document provides guidelines for the investigation of compliance concerns reported pursuant to the *Reporting Potential Violations of the Code of Business Conduct* document. Documentation details how reports will be recorded, assessed, investigated, resolved, and communicated to senior leadership and the Board of Directors.

C. Findings

1. Complaint and Concern Receipt, Investigation, and Closure Activities

Three principal channels exist for making allegations, raising concerns, or asking questions:
- An Ethics HelpLine incorporating an anonymous reporting option always accessible to the public and employees electronically by toll-free telephone (operated by third party contractor Navex)
- An Ethics HelpLine website, whose link appears at a number of Exelon intranet locations and on Exelon's public-facing web site; all HelpLine reports are forwarded directly to the EC&E Office
- Direct contact to the EC&E Office, the individual's manager, Legal, or Human Resources.

Management cited three principal sources that require and that explain the means for reporting potential violations of violations of laws, regulations, and the company's COBC: a procedure for reporting violations, reporting guidance in the COBC itself, and annual training addressing COBC requirements and operations.

The COBC closely parallels and expands upon the provisions of the reporting procedures. It provides a robust explanation of the importance for reporting, the obligation to do so, the availability of anonymity, the preclusion of and penalties for repercussion, detailed reporting contact information, and a clear description of the response, investigation, and resolution processes that follow reporting. The current slides used to guide annual compliance and ethics training provide a plain-language, extensive treatment of these same matters.

Those contacting Exelon's HelpLine have access to an anonymous reporting option supported by a PIN and password system that permits web and telephone communication with reporters wishing to remain anonymous. Investigators or other EC&E personnel may become aware of the identity of a reporter who wishes no further identity sharing or disclosure of it in reports. The practice is to honor such requests for continued anonymity "with the exception of legal, safety, and security concerns."

No documented standards exist for applying the exceptions noted. Management, however, noted a number of principles that would apply. Management cited legal compulsion (*e.g.*, a subpoena) or threat to personal or public safety as examples. Management also reported that Compliance & Ethics personnel make reporters of incidents, concerns, or questions aware of limits on protection of confidentiality before the reporter decides to continue. EC&E personnel can recall no case within at least the eight years (the duration over which the current incumbent has had responsibility for taking reports) that has required consideration of any exception to preserving confidentiality.

Management reported that any decision in the future not to honor a reporter's request for anonymity would require prior review by Exelon's EVP CA&R.

Processes exist to use lessons learned from the complaint and concern reporting, investigation, and remediation processes. As corrective actions proceed, EC&E collects and assesses information about matters sufficiently substantiated to warrant corrective action. EC&E and the CIT also periodically provide management with trends and significant issues, along with observations and recommendations for controls, training, management, and other improvements arising from their investigations. They provide annual reports on trends in ethics data and they participate in Risk Management Committee meetings.

This reporting does not routinely include informing management about new or pending investigations as necessary to preserve confidentiality and independence. It does, however, include significant new matters that do not implicate the group to whom EC&E provides such information.

EC&E intake, assessment, and assignment of responsibility for pursuing reported concerns falls under one of the group's leads AGC**B**, whose role this report's Chapter Two: *Compliance and Ethics Program, Organization, and Resources* describes. Assignment of examination, investigation, fact finding and review of potential violations may fall to EC&E, CIT, Human Resources, Security, Legal, Internal Audit personnel or a combination of them. Outside counsel engagement for some matters may also occur. AGC**B** has performed this role for eight years, including the design and provision of training for those who assist in intake responsibilities and otherwise have access to the case management database.

Management reports "closely limited access" to investigative files and the investigations database. Investigators outside EC&E have access limited to cases for which they have specifically received an investigative assignment. No documented procedures address restrictions on access to investigative files. Case-specific access control occurs through assignments of individuals to cases and access restrictions in the case document management system, EthicsPoint.

Management uses the system to assign access according to roles on specific cases or case "tiers." Tiers comprise groupings of cases with commonalities, for example, a tier for operating company cases involving Security matters or personnel (a ComEd Security Tier, for example). The Ethics Office determines a permitted level of access (*e.g.,* case-specific or tier-wide; view only or with edit rights) considering case roles. Case-assigned investigators generally secure view and edit access to permit uploading of notes and documents to the file. A 2021 EthicsPoint upgrade reportedly has enhanced management of access to case files.

A number of personnel can gain general access without such case-based authorization:
- CC&EO
- EVP CA&R
- The Ethics Lead for the Ethics Office team
- Two employees reporting to the Ethics Lead.

In addition, the HR Centralized Investigation Team leader has access for cases involving Human Resources or respect, harassment, and discrimination issues. The tiering approach also permits

access by others to information about certain cases for which they have not received case-specific access, but which concern areas they manage. For example, ComEd's Director of Security and designated investigations lead, continuing the earlier example, can access data from all cases in the ComEd Security Tier.

Management is not aware of any instances of unauthorized access to the system. A 2022 EAS examination of the EC&E addresses case information management. It recommended that management "formalize the process of monitoring the status of investigations and implement a management review control to ensure that investigations are being dispositioned timely. Review of aged cases with C&E Leadership should be performed on a set cadence." EC&E reported completion of work addressing this recommendation as imminent.

Job requirements for those regularly handling investigations include prior experience in performing investigations. Management provides online and in-person investigations training. New CIT members must complete a series of Clear Law electronic training modules addressing internal investigations. Other training opportunities exist as well. For example, several CIT team members attended an internal investigation training and conference sponsored by the Association of Workplace Investigators. EC&E and CIT have piloted internal investigation workshops focusing on interviewing skills, credibility assessments and report writing. Human Resources, Security, and EAS personnel attended them. Captioned as *Mastering the Art of Workplace Investigations*, these six-hour sessions had the objective of enhancing investigation skills through the sharing of best practices among Human Resources, Security, Anti-Fraud investigators, persons potentially rotating into the CIT, and resources to backup EC&E personnel who conduct investigations. The next illustration details workshop content.

Workplace Investigations Workshop Agenda

Workshop 1: Investigative Interviews	Workshop 2: Advanced Investigative Techniques*	Workshop 3: Investigative Documentation
Duration: 2 hours **Tentative Timing: Late May**	**Duration: 2.5 hours** **Tentative Timing: Mid-June**	**Duration: 1.5 hours** **Tentative Timing: Late July**

• Ethics Investigations Overview
• Cognitive Interviewing:
  ○ What is it
  ○ Why use it
  ○ How is it different than traditional fact-finding interviews
  ○ Opening/Closing Statements
• Funnel method
	• Credibility Assessments
	  ○ Cues to Deception
	  ○ EEOC Credibility Factors
	• Investigating so called "he said/she said" cases
	• Trauma Informed Investigations
	• Best Practices that often lead to admissions
		• Report Templates
		• Report writing best practices
		  ○ Timeline
		  ○ Credibility Assessments
		  ○ Strength of documentation

Exelon uses a Navex EthicsPoint platform to provide the access point for the Exelon Ethics HelpLine and to structure the database that tracks data accumulated in summarizing, assessing, investigating, and resolving concerns or questions received. The group assigned to investigate and the EC&E organization monitor progress. The database includes compulsory fields for corrective action and discipline where applicable, and the system accommodates electronic attachment in the matter file.

Substantiated allegations undergo review by personnel from Human Resources, management in affected areas of operation or responsibility, the investigators, EC&E, and the Legal Department to reach consensus with respect to corrective actions and any discipline. Management reports that this process considers other, similar situations to promote fair and consistent outcomes. Determining consequences and remedies typically involves the immediate supervisor and always Human Resources personnel assigned to the business unit involved. EC&E participates as well, with management of the business unit involved making the consequences and remedies decisions known.

Significant matters may involve more senior management or executive review. The Exelon board's A&R Committee receives quarterly reports describing more significant new and pending issues, with the more significant of those reviewed as well with the ComEd board.

Management has reported that the procedures for addressing potential violations have not changed materially since May 2019, but cited two notable changes in investigation processes and personnel. First came the late 2020 establishment by Exelon Human Resources and EC&E of the dedicated CIT to investigate harassment, discrimination and other serious employee relations matters and share resulting observations useful in improving personnel management practices. This change moved responsibility for such matters from business-unit-assigned Human Resources personnel with other duties to a team all of whose members have investigation experience and no other responsibilities. Second came the February 2021 completion of the Navex EthicsPoint software supporting the Exelon HelpLine and case management system. Management cited these changes as improving work efficiency, efficiency, case management, analytics capabilities and documentation of investigations.

2. *Reporting, Investigation, and Resolution Procedure*

The Exelon Corporate Procedure titled *Reporting Potential Violations of the Code of Business Conduct and Supplier Code of Conduct* (LE-AC-204 Revision 3) addresses reporting of potential COBC violations. The procedure applies to the employees of Exelon and all affiliates and to their contractors. The procedure makes EC&E responsible for overseeing the process for reporting and investigating concerns relating to the COBC and SCOC. The procedure "encourages" and "expects" employees to report COBC-related allegations, concerns, or issues promptly, citing as specific examples:

- Violations of laws or regulations
- Fair treatment, diversity and inclusion
- Harassment and discrimination
- Workplace violence and weapons
- Environmental incidents

- Workplace safety and health
- Conflicts of interest
- Accounting improprieties, accounting controls or auditing matters
- Theft, fraud or misuse of company property or confidential information.

The procedure requires that all managers and supervisors report COBC-related issues or allegations to the Ethics Office or to an appropriate Investigation Organization for processing in coordination with the Ethics Office. The procedure describes the following means for reporting concerns:

- Discuss with the supervisor, with escalation of reporter concerns about response
- Use specifically applicable avenues for special circumstances (*e.g.*, labor grievances)
- Discuss with Legal, Human Resources, Ethics Office, EAS, or Security
- Contact Ethics Office through Ethics Helpline toll-free telephone line
- Contact Ethics Office through provided email address
- Contact Ethics Office through provided regular mail address.

The procedure also cites the ability to contact EC&E for questions, advice, or guidance, citing as examples conflicts of interest arising from sources including third-party gifts, secondary employment and business, holding public office, or family or personal relationships. The procedure also invites contact with EC&E to secure personal or group training.

The procedure sets forth a number of provisions designed to preclude retaliation against reporters:

- Advising employees to feel comfortable that reporting will not have job ramifications
- Advising that reports in good faith or investigation cooperation should bring no "fear of reprisal, harassment, intimidation, retaliation or discrimination of any kind"
- A declaration that reprisal runs "contrary to our culture and values, and it will not be tolerated"
- A statement that engagement in a retaliatory act will produce discipline up to and including termination.
- Advising employees believing that retaliation has occurred to report it immediately to Human Resources, Legal, or the Ethics Office for investigation.

The procedure encourages internal reporting first, but acknowledges the right of employees first to contact a government agency or official. The procedure also requires retention of records and other documentation generated through its operation pursuant to Exelon Corporate Procedure LE-AC-401 – *Records and Information Management Retention and Disposition*.

The Exelon Corporate Procedure titled *Investigating and Resolving Alleged Violations of the Code of Business Conduct* (LE-AC-205 Revision 3) provides guidelines for the investigation of concerns reported through the Exelon Corporate Procedure titled *Reporting Violations of the Code of Business Conduct Procedure* (LE-AC-204, Revision 3). The procedure cites a database hosted by a third party and including all COBC-related "allegations, complaints and concerns," with its data elements comprising:

- For all reports
    - Reporting source (which can remain anonymous)

   o Report date
   o Category of allegation category
   o Summary of complaint or concern
  • For matters assigned for investigation
   o Investigating organization and personnel
   o Investigation notes and documents
   o Final investigation report
   o Documentation of any corrective actions
   o Documentation of feedback to source of initial report.

The procedure also describes an "Ethics Helpline" - - a third-party-hosted channel enabling telephone or web submission of reports 24 hours each day and allowing anonymity. Operation of the helpline permits automatic documenting of all reports received in an "Ethics Database." Reports made through the Ethics Helpline are automatically entered in the "Ethics Database" and forwarded to representatives of EC&E given responsibility for the oversight of COBC investigations and maintaining the reporting system. The procedure describes the "Investigation Organization" as any function, department, or program with responsibility for conducting COBC investigation including EC&E, Utility and Corporate Security, Human Resources, the Human Resources Centralized Investigations Team (HR CIT), Legal, and Exelon Audit Services. An "Investigation Team" is described by the procedures as any members of the Investigation Organization called upon to conduct a COBC investigation because of their subject matter expertise.

The procedure describes the investigation procedure and identifies four steps:
 • Intake
 • Assessment and Referral
 • Evidence Gathering
 • Resolution and Reporting.

Intake, as described by the procedure, consists of logging investigation matters into the Ethics Database, including the name of the reporting source, the report date, the category of the complaint or concern, a summary of pertinent details, and any other fields as required by the Ethics Database. The procedures "Assessment and Referral" description states that within five days of receipt of a concern made through the Ethics Hotline or referred to the Ethics office, EC&E shall:
 • Review and assess the concern for a potential COBC violation
 • Post a reply to the reporter in the Ethics Database
 • Retain the matter for investigation by EC&E or assign to the appropriate Investigating Organization.

EC&E, in consultation with the Legal Department and the Investigating Organization, has responsibility for determining investigation scope, assignment and timing based on the nature of the allegation and alleged involved parties. The procedure describes "Evidence Gathering" to include the following steps performed by the Investigation Team:
 • Determine investigation scope

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- Gather relevant facts, including witness interviews, documents and records, and consultation with internal subject matter experts
- Analyze evidence
- Make factual findings regarding the allegations.

The procedure requires that investigators evaluate evidence to identify:
- Applicability of attorney-client privilege
- Whether circumstances require immediate contact with a government agency or regulator
- Whether a matter should be escalated to senior management or the Board
- Any potential gaps in compliance, financial, or other controls
- Whether EAS should receive notice of or assignment to the investigation due to potential financial reporting impacts.

"Resolution and Reporting" as described by the procedure requires creation and sharing of a draft final report with EC&E and other appropriate stakeholders. EC&E has the responsibility to determine or confirm that the factual findings of the investigation comprise a COBC violation. If substantiated, the resulting corrective or disciplinary action is documented in the Ethics Database. The procedure also calls for the assessment of investigation information to determine if it warrants exclusion of certain costs from rates, requires notification of regulators, or other regulatory actions. The Investigation Organization is responsible for providing feedback regarding the case closure to the person who reported the allegation or concern.

EC&E personnel directly undertake a number of investigations, generally for conflicts of interest or interactions with public officials. It can also assign an "investigating organization" to lead or support investigations that call for specialized expertise. Exelon work groups whose normal functions include the potential for participation in ethics-related investigations comprise those identified as "Investigating Organizations" in the procedure for Reporting Potential Violations of the COBC. They include the Exelon EC&E; Legal, Human Resources generally and its CIT, and Exelon Audit Services groups. They also include Security personnel from Exelon and the operating utilities.

While it operates from within the Human Resources Department, the CIT coordinates its efforts with those of EC&E. A Senior Manager, Investigations heads this team. This manager reports to Exelon's Human Resources Vice President, who also serves as Exelon's Chief Diversity, Equity, and Inclusion Officer. The CIT's three full-time investigators manage COBC strategy, issues, and investigative processes involving workplace issues that include harassment, discrimination, sexual harassment, retaliation, and similar issues. CIT provides post-investigation factual summaries, corrective action recommendations, and any broader insights material to underlying management and cultural circumstances and issues. CIT also has responsibility for identifying areas of recurring concerns and trends that may warrant action. CIT also provides investigation skills and best practices training.

Practice calls for reporting of concerns about investigation integrity to immediately to EC&E, for appropriate examination, with escalation to the EVP CA&R as appropriate.

EC&E must prepare a quarterly report to the Exelon Board of Directors committee designated to oversee compliance and ethics matters describing significant COBC matters reported during the quarter and providing updates on significant matters reported in prior quarters including resolution and corrective actions. The procedure also calls for the sharing of information relating to significant new and pending COBC investigations relating to ComEd with ComEd's Board of Directors.

Procedure also makes EC&E responsible for:
- Serving as an adviser to Investigation Teams
- Tracking the status and completion of investigations
- Providing oversight of investigations to promote timely and efficient resolution
- Sharing of relevant information and lessons learned from internal investigations with business leaders, EAS, and Enterprise Risk Management, including recommendations to improve controls or training, incorporating investigation scenarios into training, and issuing communications
- Coordinating with the Investigating Organization to ensure that personnel assigned to investigations have the appropriate background, training, and experience and receive refresher training as needed.

3. Investigation Database

EC&E employs a customizable system offered by Navex to manage reports of and questions about compliance and ethics compliance, their investigation, progress, and results reporting and analysis. NAVEX operates as a world-wide leader in offering a variety of anonymous contact system, training, and information management systems in the compliance and ethics field. Navex also provides Exelon with "Whistleblower Hotline and Reporting Intake" as part of its EthicsPoint software offerings. We undertook a review of the system's structure and information in mid-December 2022. At that time, it included 862 cases opened in 2022 across Exelon.

The system supports consistent and robust data collection and means for recording activities to address reports and their resolution. The system also provides for automated messaging to personnel having have assigned tasks or oversight responsible regarding report management, investigation, and resolution. The system also provides for required entries of information about those processes. Automation of messaging and task-completion entry requirements simplifies the process of ensuring timely information to all involved and promotes investigation, resolution, and recording in a complete and consistent manner. EC&E's division of reports into categories, or "tiers" facilitates prompt assignment of responsibility for investigation or other applicable response to reports and it also provides a structure for controlling access to the sensitive information (including limiting distribution of sensitive information, preservation of anonymity, and mitigation of reporting repercussion risk).

Those assigned to cases have ready access to a full repository of case information and automated notices of their assignments to cases and activities and to developments as investigations proceed. Data management capabilities also allow for periodic and real-time reporting and analysis of numbers and trends (*e.g.*, open items, individual case status, examination of trends in case numbers or types). The system also supports standard report design, and content and delivery automation.

A system upgrade produced improved data classification and detail; it became effective in March 2021.

Reports enter the system as made, with a daily report of those in what EC&E terms the "Triage" tier (one of those comprising the tiering structure described above). These cases comprise those awaiting assignment(s) for follow-up, generally in the form of an investigation for those with sufficient form and content to allow identification of next steps. Those that do not provide sufficient information for such activities produce requests (where requested anonymity permits) for follow up seeking more information from which to begin focused inquiries. Our sample review showed prompt assignment from lists of personnel available by subject area, for investigation or requests for foundational information needed to proceed. Assignment out of the "administrative" Triage tier includes assignment to one of a number of "substantive" tiers, which have groups of experts identified in the system for assignment to specific matters. These subject-matter-based tiers include:

- Two *Human Resources* tiers: one for matters addressed by the HRCIT and another for Human Resource matters whose investigation falls within that department but outside the group that comprises the HRCIT
- Five *Security* tiers, one for each utility operating business (ComEd, PECO, BGE, and the PHI utilities) and one for the Exelon BSC groups that provide common services to the utility businesses
- An *Ethics Office* tier for those matters whose investigation EC&E will directly handle (their role with respect to most investigations, which fall under the other tiers is administrative or supportive)
- A *Legal/Special Handling* tier for cases deemed appropriate for handling by Exelon Legal personnel (perhaps through or with outside counsel assistance) or EAS
- An *Anti-Fraud/Waste & Abuse* tier.

A final tier holds older cases initiated before the transition to the new system version. The system permits control of access in a number of layers the EC&E employs in maintaining overall control and administration of the case management system. Judgment applies in assignment of matters to tiers. For example, employee theft reports generally get assigned to the Security tier, but those raising the possibility of recurring or patterned conduct may go to Anti-Fraud/Waste & Abuse. For another example, EC&E may assign to the Ethics Office tier matters of first impression or greater seriousness that otherwise fit well one of the other tiers.

The EVP CA&R and the CC&EO positions (now held by the same person) and all the members of the latter's team have full access. Others have access that EC&E assigns and limits as matters open and as dialogue during their processing and investigation proceeds. Typically, the lead for each tier has access to all matters assigned to that tier. Those assigned to processing and investigation roles for specific matters within the tier have access generally limited to those matters for which they have activity assignments. Tier leads can give additional access to matters within their tiers and EC&E personnel can do so for individual or classes of matters in all tiers. The system's programming places access restrictions in accord with these access limitations.

Management reports the transition to the new EthicsPoint-based system as bringing significant improvement in access control. The prior system did not have the capability to place such limits -

- access to the system for any purpose and under any authority granted allowed access to the data housed for all matters.

A member of the investigations team in EC&E reviews daily cases awaiting initial review and activity assignments. The system entries available at that time typically include date of the report initiating a matter, the business unit involved, and what is known about the source. For example, requests for anonymity limit source information. The system provides an entry for assigning a primary individual (from an extensive list arranged by tier) for pursuing the matter initially. The system permits entries for due dates, priority assignment, and more open ended explanations of matter circumstances or needs. The system also permits tracking of completion of tasks set forth as part of matter pursuit or investigation.

The EC&E person who reviews matters in the Triage tier can make a direct assignment of team members for follow-up and investigation, or permit tier leaders to do so by directing the matter to a tier lead. This practice gives EC&E both visibility and control in matching assignments to what is known about the matter at the time. Matters directed by EC&E to a tier lead show no assignment; continuing review of unassigned matters by EC&E seek to ensure no delay in assignments by the tier lead involved.

Selecting a name serves to grant that person access to the system information on the matter, trigger an automated e-mail to the assigned person calling for follow-up work to begin, and notifying the tier leader. The e-mail provides a link to click for direct entry to system data for that matter. The EC&E person can provide similar notice to additional tier team members where warranted. The system permits similar additions or changes to those responsible as information unfolds.

The system permits dragging and dropping of files into the matter's system location, producing a single repository for all matter-relevant information. This information includes direct evidentiary matters, summaries of interviews, and matter synopses completed when resolution nears or arrives.

Other notable system features include a requirement to enter the identities of all matter participants (for example, the person engaging in conduct examined, those subject to or witnessing it, and reporter where known). The person primarily responsible for examining or investigating the circumstances involved must ping the system when that person considers the matter ready for closure. EC&E personnel must note agreement to closure through an entry into the system for all matters, except for those assigned to the HCIT. If the responsible EC&E individual makes an assignment only to a tier (*i.e.*, to no individual lead) the tier's director gets an email. No individual assignment occurs until the tier director makes one.

The EC&E group responsible for investigations includes ACG**B** and reports. Regular meetings each week review newly entered matters, assignments of responsibility, progress in processing and investigation of open matters, and possible additional actions warranted. The team also reserves time each Friday for another meeting if required. The reports to ACG**B** follow system contents, provide oversight of investigations underway, review investigation sufficiency and matter closure readiness, and provide support using their knowledge of investigative processes and techniques. One of them also serves as the investigative lead for those matters not assigned to another tier, but kept within EC&E. ACG**B** takes direct responsibility for matters of particular interest or concern.

The system tracks all contacts from all originating sources, including the Ethics HelpLine's web and telephone access options. We selected a sample of 26 cases from five categories: conflict of interest (seven cases), questions (two cases), financial/fraud (five cases), asset misuse/misappropriation (three cases), and other (nine cases). The absence of case type visibility from the name and the large number of cases assigned to it produced the larger selection from the last category. Our selection sought to ensure reasonably broad variety in case subject matter, source of making the first report, anonymity and non-anonymity of the reporter of the matter, nature of the investigative activities in relation to the scope and complexity of the matter reported, days from case opening to closure, outcome (*e.g.*, substantiated or not) and action taken (*e.g.*, coaching, discipline, termination) for partially or fully substantiated reports.

4. *Matters Logged and Sustained*

The next tables show the matters logged into the system and those producing violations wholly or partially substantiated.

Matters Logged

Entity	2020	2021	2022	Change
ComEd	196	213	231	18%
Other OpCos and BSC	365	460	520	42%
Total	**561**	**673**	**751**	**34%**

Violations Substantiated

Entity	2020	2021	2022	Change
ComEd	63	54	53	-16%
Other OpCos and BSC	101	116	91	-10%
Total	**164**	**170**	**144**	**-12%**

5. *Controlling Access to the Compliance Matter Case Log*

The EthicsPoint application supports logging and tracking of compliance and ethics matters and their examination and resolution. The current list of persons having some level of access (frequently limited to investigations to which they have been assigned), includes 67 persons, across a wide range of positions, including many executives. Nearly all hold legal, EC&E, Human Resources, and Security positions within Exelon. The list has changed substantially, with 41 users added and 112 removed in 2022. The Constellation separation in February 2022 caused a large number of the removals.

Management operates the system without documented procedures addressing access to investigative files. Management uses a case assignment process to limit access to those authorized. Only three designated persons in the EC&E organization may add users to the system, with access by those added users limited to data to which they are assigned specifically. Launch of the revised logging and tracking system in 2021 came with testing assisted by Navex, which provides the

EthicsPoint application and services related to it. Management has not undertaken any subsequent reviews designed to test the effectiveness of EthicsPoint controls since 2021.

Entry into EthicsPoint requires both the access granted by the system and Exelon credentials. All such personnel (which includes operating personnel from utility, Human Resources, Security, EC&E, and some other Exelon organizations) can add internally-initiated (*e.g.*, not reported through the HelpLine) matters. Most matters added internally are entered by Human Resources personnel to whom an allegation or concern has been reported. Initial recipients who do not have EthicsPoint access report such initial contacts to permit someone in their chain of reporting who does to enter the matter, make initial responsibility and task assignments to someone who does have access, or seek assistance from EC&E in doing so. Similarly, Security and EC&E personnel may initiate matters directly to them. EthicsPoint includes prompts under its "Open New Case" screen to enter the information required to open the matter and make initial assignments.

Matters opened internally through direct reporting frequently make the identity of the person making the initial report known. Management reports that such cases generally do not include a request from that initial reporter not to share identity further, However, the system permits logging of requests not to further share identity, in which case EC&E makes efforts to protect anonymity beyond the person to whom the initial reporter first raised an allegation or concern.

6. *Investigations-Related Training*

Those who perform investigations as a regular part of their jobs receive training in their conduct. Specially designed training modules exist for handling investigations falling within the Fraud/Waste & Abuse tier. Those who perform investigations of matters assigned to the Security and the Human Relations tiers receive training as determined by their home organizations. Work is reportedly underway to develop training for Human Resources personnel who have less frequent investigative responsibilities. The HR CIT has operated since the fall of 2021, with training for that group described as "nascent" in its development. That team has access to ClearLaw Institute's Online Sexual Harassment Training and Prevention, described by its offeror as used by thousands of employers to train more than one million employees. Management plans to address training for investigations and other compliance and ethics roles and responsibilities broadly in 2023.

The next table summarizes ComEd case data in the categories we reviewed in more detail.

2020-2022 Investigations Summary Data

Category	Number	Help Line	Anony-mous	Days to Close		Substan-tiated	Notes
				Range	Avg.		
Ask a Question	26	26	5	1 - 255	42	n/a	Actions included two coaching and three policy/process reviews
Conflict of Interest	30	14	12	1 - 188	54	4	Actions included 3 coaching and 4 p/p reviews
Financial/ Fraud	32	18	15	9 - 516	123	10	4 terminations, 2 discipline, 2 training, 3 coaching, 4 p/p reviews
Asset Misuse/ Appropriation	42	10	6	1- 309	63	32	Most ID'd through access controls; 5 terminations, 1 discipline, 16 coaching
Other	62	49	21	1 - 412	72	8	Actions included 2 terminations; 2 discipline, 2 training, 8 coaching

7. *Investigations Experience and Training*

Two members of the Ethics Office, trained as and having experience as attorneys, oversee investigations performed by members of other Exelon groups designated by tier. These two Ethics Office members also directly perform investigations in matters that involve conflicts or other, more serious allegations or issues. EC&E leadership makes assignments to investigations or designates the tier lead as responsible for such assignment. One of those Ethics Office members, AGC**B**, reports to the CC&EO. AGC**B** has amassed experience in investigation across 10 years in Exelon compliance and ethics organizations. Before that his role as an attorney responsible for litigation for Exelon also engaged him in investigations. Before joining Exelon, he served as an Assistant State's Attorney in Baltimore, where his work involved a range of criminal matters. The second Ethics Office member with a substantial investigation role joined Exelon recently, following service in a University of Maryland, Baltimore position that involved conducting and advising on internal investigations. Previous positions as an inside counsel also included investigation responsibilities.

The EVP CA&R also takes an oversight role in some investigations conducted under the direction of EC&E. His 24 years as a prosecutor in the Chicago United States Attorney's Office included 11 as the office's criminal division chief. He also served for four years as Regional Director of the Securities and Exchange Commission's Chicago Regional Office, where his responsibilities included enforcement and compliance inspection activities in nine Midwestern states.

The Security tier includes physical safety, theft, misuse of company assets and similar matters. Security personnel at the operating company or unit involved. The director of Security at ComEd has held Exelon security roles for nine years, engaging him in investigation oversight for Corporate and ComEd Security. Formerly the Chicago Police Department's Chief of Detectives, he is also a Certified Fraud Examiner (CFE). The ComEd Security team members with investigative roles include former law enforcement personnel. Three of them are CFEs; a fourth is completing certification. Exelon's Director of Corporate Security joined the company in 2019. He formerly served as police chief for Howard County Maryland, where he also had experience in the force's

internal affairs organization. Exelon Corporate Security also includes former law enforcement personnel, with one of its primary ethics-matter investigators also a CFE.

These operating company and corporate security personnel operate under the overall direction of Exelon's Senior Vice President and Chief Security Officer. This executive has more than 30 years of experience in the FBI's Criminal Investigative Division. He served as Assistant Director in Charge of the FBI's Inspection Division and as Special Agent in Charge of its Baltimore Field Office.

The four-member HR CIT team also has investigative responsibility for compliance and ethics matters. The team's lead and three investigators address more serious workplace harassment, discrimination, and retaliation matters. The CIT members offer prior experience as HR business partners (providing HR support to specific operating units under overall direction from the corporate HR organization), in employee relations, as HR consultants, and in EEOC investigations. As a group, they also have experience in managing and conducting workplace investigations at Exelon and in prior roles with external public and governmental agencies.

All HR CIT members undergo Clear Law electronic based investigation training. Their training includes participation in the Investigations Seminar & Certificate Program and in modules for Advanced Interviewing Techniques, Examining Credibility, Legal Requirements of Workplace Investigations, Writing Investigative Reports, Spotting Cues to Deception in Employee Investigations, Cognitive Interviewing Technique for Investigations and Litigation, Content Analysis of Witness Statements, and Protecting Attorney-Client Privilege. Two team members also have completed Association of Workplace Investigators training, including Bias, Planning, Interviewing, Law, Evidence, Credibility, Ethics, Report Writing and Post-Investigation training. The other team members are scheduled to attend this training in 2023.

Management also plans to begin in 2023 an extension of training piloted in 2022, with plans to continue such training on an annual basis. Expected participants include HR personnel beyond the CIT and Legal Department personnel who participate in investigations involving Labor & Employment matters.

8. Database

We inquired into the data captured by EC&E's data base since 2020. The response noted that the upgrade to Navex EthicsPoint software in 2021 has produced variations and some inconsistencies in data tracked. Our requests for information about specific categories of data entered produced the following response:
- Type and description: very briefly worded "Primary Issue" a tracked field, employing "Other" where not categorizable from a pre-set list
- Status: a listing of whether closed or pending a tracked field
- Date complaint/allegation confirmed or dismissed: not a tracked field per se, but days to close comprises a tracked field
- Date violation recorded: date matter opened a tracked field
- Manner in which complaint/allegation received: Intake Method a tracked field

- Responsive actions taken: Primary Case Outcome has been a tracked field, consisting of very brief categorical listings from a pre-set list (*e.g.*, Substantiated, Unsubstantiated, Question Answered), with Action Taken later added after system upgrade and providing one- or two-word indicators from a pre-set list (*e.g.*, Training, Coaching, Discipline, Termination)
- Dates of responsive actions taken: not a tracked field
- Time to acknowledge receipt of complaint/allegation: not a tracked field
- Time to close matter: Days to Close a tracked field.

9. *Conduct Reporting under Public Utilities Act Section 4-604*

Public Utilities Act Section 4-604(d)(2)(E) requires that a public utility, such as ComEd:

> *maintain records of all conduct determined to be in violation of Illinois law, rules, and regulations, and the utility's response to that conduct, and make such records available for inspection by the Public Utility Ethics and Compliance Monitor.*

Management has reported that no misconduct by ComEd or Exelon's employees or contractors violative of Illinois law, rules, or regulations has occurred, excluding routine traffic or administrative matters (*e.g.*, traffic tickets, zoning and easement compliance). Management also reported being subject to frequent third party conduct that may comprise such violations, all but one of which it has characterized routine. It did address with us verbally one potentially more serious matter that so far appears to involve third-party conduct. It remains under investigation, thereby inducing us not to seek documentation regarding it.

D. Conclusions

1. An effective organization, supported by sufficient resources, carries out pursuit and investigation of compliance and ethics allegations, concerns, and questions.

Responsibility for directing pursuit and investigation of compliance and ethics allegations, concerns, and questions falls under (AGC**B**), a direct report to the CC&EO. This report's Chapter Two: *Compliance and Ethics Program, Organization, and Resources*, describes this group's responsibilities more extensively. AGC**B**'s Ethics Office also has responsibility for interpreting the employee and supplier codes of conduct (COBC and SCOC). EC&E's Ethics Office personnel perform many investigations directly and provide direction over those performed by others to ensure their timeliness and effectiveness. The Ethics Office determines assignments to teams that pursue and investigate matters, using a logging system that also manages communications about the status of pursuit and investigation activities.

The Ethics Office has access to experts in other organizations whose job responsibilities give them knowledge and experience specifically applicable to certain types of allegations or concerns (*e.g.*, physical or cyber security). One of those groups, Human Relations CIT, stands available to investigate harassment, discrimination and other serious employee relations matters. Members of this team can also share resulting observations useful in improving personnel management practices, making their contribution material to both EC&E's and Human Relation's responsibilities.

The EC&E members engaged have substantial investigation experience and receive training, as do those of other groups who provide investigation resources. Many have certifications attesting to their skills and training associated with their areas or roles in investigations.

2. Effective policies and procedures govern the reporting of compliance and ethics allegations, concerns, and questions and the pursuit and investigation.

Three principal policy and procedure documents govern and guide the processes related to pursuit of allegations and concerns and the provision of compliance and ethics related information. They set forth clear expectations and requirements, adequately describe means for implementing them, provide assurances of confidentiality and non-retaliation and explain the consequences of retaliating. They oblige personnel to report violations promptly and in good faith. Policy and procedure documentation highlights and ties to COBC and SCOC expressions of expectations, requirements, accountabilities, and consequences

3. Adequate measures exist to support anonymous reporting of compliance and ethics allegations, concerns, and questions, subject to the exception described in the following conclusion.

The policies and procedures (and to a material extent the COBC and SCOC) describe the processes for reporting potential violations, investigating them, and resolving them. A proper range of reporting methods exist, supporting anonymity where requested by the reporter. The methods include an Ethics HelpLine available for intranet, telephone, or public web access and operated by a widely used third-party contractor. The Exelon HelpLine offers an anonymous reporting option that employs a PIN and password system that permits web and telephone communication with reporters wishing to remain anonymous. Reporters can also make reports by direct contact to EC&E, Legal, Human Resources, or the applicable manager. All reports go to the Ethics Office.

4. No documentation addresses the process management reported as used for making exceptions to the compliance and ethics allegations, concerns, and questions. (*See Recommendation #1)*

Initial reports that come from other than the HelpLine and the investigation process following reports however initiated may make investigators or other EC&E personnel aware of the identity of a reporter who wishes no further identity sharing or disclosure. An undocumented practice reportedly seeks to honor requests for continued anonymity except in cases of legal, safety, or security concerns. Management has reported that EC&E personnel make reporters aware of limits on application protection of confidentiality before the reporter decides to continue. Management has also reported that these or any other exceptions to requests for continued anonymity would require prior EVP CA&R review.

While management has reported no known application of exceptions like these, the importance of preserving anonymity makes lack of documentation of controls on their application a gap that management should close.

5. EC&E employs an effective system for logging reports, actions taken to pursue them, and summaries of their resolution, but the gaps the next conclusion addresses should be closed.

EC&E employs a closed system for logging reports, actions taken to pursue them, and summaries of their resolution and responsive actions (*e.g.*, none, coaching, discipline, termination). This system provides for a well-controlled means for appointing those assigned to investigate or otherwise pursue each report. The system also provides for confidential communications regarding the matter involved. Its capabilities include housing investigative and other documentation accumulated. EC&E uses the system not only to manage the investigative process, but to feed reports that it provides to members of the Exelon and ComEd boards of directors. EC&E's description of means and controls to limit system access to and require proper use (*e.g.*, entry of required information). System design and configuration has come with support from a well-experienced outside vendor and has undergone recent enhancement.

6. Documentation of measures for controlling access to the database of matters logged for pursuit and investigation and testing of measures to limit access to those properly authorized are lacking. (*See Conclusion #2)*

Management has described its means for controlling system access and for ensuring its proper use (*e.g.*, entry of required information), but they do not exist in documented form. Their significance warrants the creation of written procedures regarding access control.

System design addressed controls over unauthorized use both by those who have compliance and ethics roles and others within and outside Exelon entities. No unauthorized access or attempts to gain it have been observed. Nevertheless, sound practice calls for periodic testing to verify that the system remains sufficiently protected against unauthorized access.

7. Our review of a significant sample of compliance and ethics investigations found them well and timely executed, and without any indication that they lacked vigor or objectivity.

We found the investigative process well designed, timely executed, and sufficiently documented. Results we examined appeared consistent with the information recorded. We found required reporting to the Exelon Board's A&R Committee and to the ComEd Board of Directors concise yet supported by appropriate detail, and timely.

The investigation database, using a customizable system from a leading outside vendor provides a sound repository for information developed during pursuit and investigation. Its entries for key milestones, such as disposition and responsive actions, including job actions for those involved are sufficient and are regularly completed.

Development of well-informed responses to substantiated allegations results from a multi-disciplined review to which Human Resources, management in the unit(s) the matter has involved, the assigned investigators, EC&E, and Legal contribute. The group that reviews substantiated allegations seeks consensus on corrective actions and discipline.

We performed a detailed review for a sample of logged matters. The sample chosen covered multiple cases in each matter type category the system uses. Our examination considered action timeliness, scope and depth of investigative efforts. We examined the documentation placed into the system (*e.g.*, documentation of interviews, photographs, investigator notes). We examined sequencing and timing of key steps and final resolutions to test timeliness of process execution.

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We looked for indicators of hesitance to pursue matters and lack of objectivity in the documentation.

In addition to this sample review, we looked broadly at investigation data from perspectives that included time to close, numbers substantiated, clarity and consistency of actions taken for allegations fully or partially substantiated.

Our reviews found the investigative process thorough as described circumstances appeared to warrant, with no indication of lack of objectivity or systemically untimely action. Resolutions and actions (including discipline and termination) were consistently entered and showed no indication of inconsistency with or disproportion relative to the factual information entered.

E. Recommendations

1. **Document the process for making exceptions to anonymity assurances to reporters and investigation information providers and provide for reporting exceptions made to the boards of directors.** (*See Conclusion #1)*

Initial reports that come from sources other than the HelpLine and the investigation process following reports however initiated may make investigators or other EC&E personnel aware of the identity of a reporter who wishes no further identity sharing or disclosure. An undocumented practice reportedly seeks to honor requests for continued anonymity except in cases of legal, safety, or security concerns. Management has reported that EC&E personnel make reporters aware of limits on application protection of confidentiality before the reporter decides to continue. Management has also reported that these or any other exceptions to requests for continued anonymity would require prior EVP CA&R review.

While management has reported no known application of exceptions like these, the importance of preserving anonymity makes lack of documentation of controls on their application a gap that management should close.

2. **Document investigation database procedures and periodically test the continuing effectiveness of measure to control access to it.** (*See Conclusion #6)*

Procedures for limiting access to the investigation database and for use of its contents should be documented and should address accountability for failing to meet them. Periodic tests should address the continuing effectiveness of measures to control unauthorized access.

Chapter Seven: Finance and Accounting and Internal Control Environment

A. Chapter Summary

This chapter addresses the adequacy of the control environment at and for ComEd. Its scope includes the control framework, the Sarbanes-Oxley process and reporting, compliance with ICC control requirements, and the internal audit process, effectiveness, and independence. It considers the influences that the DPA has had on these areas and it examines specific actions taken to improve the control environment. We also examined the integrity of ComEd's financial accounting process with respect to the ability of its systems and procedures to provide adequate assurance that the ComEd results reflect the appropriate accounting for transactions relating to ComEd.

We generally found the internal control environment at ComEd sound, well-documented, and the internal audit organization professional, independent, and appropriately focused on partnership with the business units. We also found accounting processes generally well-controlled, conducted primarily by ComEd employees, and structured to provide reasonable assurance that the ComEd financial results are inclusive, but limited to transactions appropriately assigned to ComEd and in conformance with GAAP and FERC requirements.

We have recommended two process improvements that would further enhance the completeness and documentation of the intended control environment.

B. Background

This chapter addresses central aspects of the internal control environment at ComEd. A sophisticated array of regularly monitored and tested controls needs to exist and be regularly and fully executed to provide reasonable assurance of:
- Financial statement integrity
- Continuity of internal processes and operations as designed
- Verification that results produced follow appropriate controls operation

Key financial controls undergo routine testing through the Sarbanes-Oxley (SOX) process described below, with regular internal auditing department testing of financial and operations controls as well.

We examined the Committee of Sponsoring Organizations (COSO) control framework employed, the process by which ComEd fulfills its SOX obligations, and the structure and operation of the internal audit function performed under the Exelon-wide EAS organization. We considered EAS's risk assessment cycle, processes, and methods. We also examined input from management and the testing, reporting, and tracking of EAS findings. Our review included the operation of the Exelon Board's A&R Committee (no such committee exists at the ComEd board level), the committee's relationship with EAS, and the processes governing the independence of the external auditor.

The COSO Framework provides a broadly accepted, widely-used structure for designing, implementing, and evaluating internal control for U.S. enterprises. James Treadway led a commission for creating this framework, in conjunction with five private sector organizations - - the American Institute of Certified Public Accountants, the Institute of Management Accountants,

the American Accounting Association, the Institute of Internal Auditors, and Financial Executives International.

Congress passed the SOX legislation in 2002 to protect shareholders. The U.S. Securities and Exchange Commission (SEC) sets compliance requirements for publicly held companies. Specific SOX sections most relevant to our examination here include sections 302 and 404. Section 302 focuses on disclosure controls and procedures and on the personal accountability of signing officers. It requires that the principal executive and financial officers of a company, (typically the Chief Executive Officer and Chief Financial Officer) personally attest to the accuracy and reliability of financial information. These officers must make these attestations as part of quarterly (10-Q) and annual (10-K) reports filed with the SEC.

Section 404 requires that companies annually assess and report on the effectiveness of their internal control structures. These reports address management's assessment and testing of internal controls and procedures for financial reporting. Evaluating and reporting on the design and operating effectiveness of controls comprise areas of focus of this testing. Management must review testing results, with all control testing failures classified as a "control deficiency," "significant deficiency," or "material weakness." The material weakness classification indicates a significant deficiency or combination of them creating a more than remote likelihood of failure to prevent or detect a material financial statement misstatement. A significant deficiency denotes lesser severity than does a material weakness. It constitutes a deficiency unlikely to have material impact on financial statements but important enough to merit attention by those responsible for oversight of financial reporting. A company must report on deficiencies to its board of directors and its audit committee, and 10-K reports annually filed with the SEC must disclose material weaknesses. In addition to the internal control assessment, SOX requirements mandate that an independent external auditor inspect public companies internal control practices and include an audit report within the company's financial report.

Examining the control environment at ComEd formed a primary objective of the review that this chapter describes. We also examined means and methods for ensuring appropriate governance of financial systems, account structure, policies and procedures, and billing of service company costs to ComEd under that control environment, and ComEd financial results in compliance with Generally Accepted Accounting Principles (GAAP), and regulatory requirements. We examined whether results properly reflect a reasonable allocation of service company costs, and ensure proper financial transactions recording to the correct accounts of correct companies, to avoid cross subsidization.

ComEd entered in July 2020 a DPA with the U.S. Attorney's Office (USAO) for the Northern District of Illinois to resolve a USAO investigation under which the USAO filed a single charge alleging that ComEd improperly gave and offered to give jobs, vendor subcontracts, and payments associated with those jobs and subcontracts for the benefit of the Speaker of the Illinois House of Representatives and the Speaker's associates, with the intent to influence the Speaker's action regarding legislation effecting ComEd's interests. We considered the requirements of the DPA and the circumstances leading to it in examining the control environment and financial accounting integrity.

C. Findings

1. Internal Control Framework

Exelon adheres to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework. Key financial reporting controls are designed and implemented to mitigate relevant financial reporting risks and include both preventative and detective entity level and management oversight controls, manual and automated process and transaction controls, and IT general controls. Every year, Exelon's external auditor, PwC, attests to its review of Exelon's internal control framework for consistency with the COSO framework. We examined the PwC statement in Exelon's 2021 10-K. We also examined a list of 491 Key Financial Controls that relate to or support ComEd.

2. Sarbanes-Oxley

a. Process

Exelon maintains an overall SOX program under which EAS completes a yearly assessment that includes design and effectiveness testing of most of the key financial controls. The annual process starts in March and continues through the following February, with walkthroughs between May and July. Testing starts in September and lasts until the following February. Prior to testing, EAS sends a questionnaire to control owners to identify any changes that have taken place and to seek input on effectiveness of control operation. Auditor-performed procedures to test controls' operating effectiveness include:

- Inquiry of appropriate personnel
- Observation of the company's operations
- Examination of relevant documentation
- Re-performance of the control.

PwC provides annually a list of the controls on which it relies in performing its examination. The controls on that list, which includes IT General Controls, undergo testing annually. Testing of other key financial controls not relied upon by PwC occurs on a three-year cycle. All business process areas undergo an assessment annually.

Walkthrough and "testing of one" processes comprise key elements of the SOX testing process. Performed in coordination with PwC, they involve walking through with management a selected transaction from process beginning to end. The "test of one" consists of a sample tested by EAS before, during, or after the walkthrough for both financial and operational purposes. EAS must also perform a "test of one" for PwC-reliant controls and all key financial controls tested for the current year, in conjunction with the test of control design.

Control deficiencies become labeled as significant deficiencies or material weaknesses, if appropriate. Tracked due dates apply for confirming remediation of all deficiencies. Tracking of deficiencies not fully remediated employs an "open" or "pending verification" label. At the end of each year, an open deficiency analysis evaluates deficiencies collectively to determine their significance overall. EAS developed a SOX control owner training course to assist with the remediation process. All control owners must take the training.

        b. Reporting

EAS reports all SOX deficiencies to the Exelon Board's A&R Committee. Our examination of a sampling of those reports found them appropriate. We also examined the annual representation regarding the effectiveness of Internal Controls over Financial Reporting in the 10-K reports for 2019 through 2021.

ComEd stated that no Material Weaknesses have arisen since 2019. The only reported Significant Deficiency since 2019 related to another Exelon utility and had no ComEd impact. Management reported that circumstances underlying the DPA and response to those circumstances (discussed below) did not constitute a Material Weakness. The reported total amount of inappropriate payments recorded on the company's books amounted to $1,324,500, and management reported that issues surrounding the DPA became subject to extensive addressing within and among management, the Exelon Board of Directors, and its A&R Committee.

        3. *Internal Audit*

        a. Organization and Staffing

The Chief Audit Executive (CAE) who leads EAS reports administratively to the EVP CA&R, whose other responsibilities Chapter Two, *Compliance and Ethics Program, Organization, and Resources*, addresses. The CAE reports functionally to the Chair of the Exelon Board's A&R Committee.

We examined the current EAS charter, approved by the Exelon Board's A&R Committee on July 25, 2022. It contains the expected description of purpose, role, organization, responsibilities, independence, scope, and quality assurance program. The CAE makes a presentation (the General Auditor Presentation) at each A&R Committee meeting, and meets in a private session with the Chair of the Exelon Board's A&R Committee at least quarterly. A General Auditor's Report has accompanied the presentations. We reviewed the General Auditor Reports from November 2, 2020 to July 25, 2022. They typically contain:
- Updates on SOX activities
- Reviews of recently completed audits
- Annual audit plan and updates
- Status of open findings
- Other items of current interest.

The EAS headcount remained stable at 69 to 72 from 2019 through January 2022. The February 2022 Constellation separation led to a transfer of 29 positions out of Exelon. The post separation EAS budgeted headcount became 45. Controls that supported both Constellation and the remainder of Exelon underwent evaluation to determine post-separation need for them and by which entity. Maintenance of the control at Exelon and replication at Constellation occurred for those controls needed by both. The separation reportedly did not affect audit activities related to ComEd.

The following table shows the annual audit hours allocated to ComEd from 2019 through October 2022.

EAS Audit Hours Allocated to ComEd

Category	2019	2020	2021	2022*
ComEd Audits Only financial records, processes, operations	152	390	1,641	467
Exelon Audits financial records, processes, operations	2,317	7,297	5,278	2,759
SOX Activities	3,265	5,331	4,225	4,437
Exelon Ethics & Compliance Audits organization, policies, procedures		284	223	233
Other - Anti-Fraud and Advisory Programs	909	1,280	401	1,905
Total (ComEd allocation)	**6,643**	**14,582**	**11,768**	**9,801**

* through October

A large number of 2019 Exelon Generation audits reduced the hours for ComEd that year. Other factors behind the 2020 ComEd increase from 2019 included a ComEd-only DPA engagement that year. ComEd hours fell somewhat in 2021, with ICC required compliance engagements a significant resource driver. The hours for 2021 and 2022 (annualized) are roughly equivalent.

Newly hired auditors complete a 15-module on-boarding training program that covers a wide compilation of materials relevant to new auditors including:
- SOX Requirements
- Role of EAS at Exelon
- Types of services provided by EAS
- Review of current engagement plan
- Introduction to Exelon Business Services.

b. Qualifications

The EAS staff includes a significant number of certified professionals, including ten Certified Public Accountants, four Certified Internal Auditors, and four Certified Fraud Examiners. The International Standards for the Professional Practice of Internal Auditing require a Quality Assessment Report (QAR) at least once every five years. We examined a November 2019 report from an outside accounting and professional services firm, which found that EAS "generally conforms" to the Standards, which represents the highest rating. This rating denotes conformity in all material respects to relevant structures, policies, procedures, processes for applying them, and compliance with the requirements of the individual standard or element of the Code of Ethics. The firm's report noted a number of EAS strengths:
- Leveraging rotational business resources to broaden perspectives
- Formalizing audit frameworks to govern approach while providing execution flexibility
- Maintaining a strong analytics team
- Collaborating with management on solutions and recommendations
- Maintaining independence and objectivity.

The launch of the EAS Elevate program comprised a key improvement made following the 2019 QAR. This program targets enhancement of EAS team member capabilities. EAS Elevate sessions include live training sessions and facilitated dialogues. Seven sessions have occurred since the 2021 program launch; topics addressed have included business acumen, auditor analytics, and communications with stakeholders.

The firm has provided a subsequent, February 2023 QAR report. Its overall rating remained at the highest level, noting only minor opportunities for improvement. The firm noted that when compared to the 2019 assessment, EAS has "leveraged its strong foundation and continues to advance its maturity." Further, referring to a "maturity model" used in its assessment, EAS has moved from an "Advanced" organization in 2019, to a "Leading Practice" - - the highest level.

EAS has undergone what it terms a "transformation" some years ago - - a transformation cited by both the SrVP-EAS and the chair of the Exelon Board's A&R Committee. A July 12, 2018 "EAS Transformation Playbook" describes the changes, which included:
- Move to a more risk-informed and value-oriented approach
- Structure service delivery around business value and assurance results
- Use internal expertise to enhance risk and controls environment strength and efficiency
- Apply experience knowledge and analytics to produce more impactful outcomes.

Management has reported the changes in EAS as moving it toward a state of the art organization by analyzing the existing organization, determining what worked or did not, and how it could improve. The transformation sought to position EAS as a valued partner with the businesses, changing the organization structure allowing for more interaction between those on audit engagements and those doing SOX testing, and implementing a new audit methods system known as DARE (Define, Assess, Report, Enable).

c. Risk Assessment

The three different organizations that perform risk assessment (EC&E, EAS, and ERM) all report to the EVP CA&R. This report's Chapter Four: *Compliance and Ethics Risk Assessment* addressed the EC&E risk assessment, to which EAS and ERM contribute. Chapter Two: *Compliance and Ethics Program, Organization, and Resources* generally described the use of risk assessment and Key Risk Indicators as part of enterprise risk management. The three organizations coordinate their activities, but address risk for different purposes and in somewhat different ways. This chapter address how EAS employs risk assessment in planning its work.

EAS employs a Compliance & Audit Risk Universe (Risk Universe) to guide its processes. EAS developed this tool and set of processes in 2021 to aggregate and categorize auditable risks facing the Exelon businesses under a common framework. EAS uses the Risk Universe to document risk assessment inputs, to facilitate management reporting and to assist in prioritizing risk-based engagements. Data captured in the Risk Universe includes risk category (financial, operational, regulatory compliance, reputational, strategic), description of the risk, and entity or entities affected or engaged.

The risk assessment processes and objectives of the three entities who employ them overlap in certain regards; therefore the organizations under the EVP CA&R have coordinated their risk assessment processes to ensure comprehensive coverage and avoid duplication of effort. Each risk assessment process includes participants from the two other groups. Each group shares its work with the other groups, and the three teams meet and communicate regularly. Specifically, EC&E uses the same Risk Universe platform as EAS, and EAS and ERM meet at least quarterly to discuss recently completed and planned audit engagements.

d. Annual Audit Plan

The process of developing the annual audit plan begins in late August with a macro level risk assessment, utilizing the Risk Universe. Deloitte, PwC, ERM, EC&E, and business partners provide input to risk assessment. EAS dedicates about half its resources to SOX processes, allotting some for audits driven by regulatory requirements. The balance becomes discretionary. A scoring method produces ranking of potential audit subjects, accounting for risk severity, likelihood of control issues, date of last audit of the area(s) affected, previous audit findings, and circumstances created by any new processes since implemented. EAS management assesses the scoring in creating an initial annual plan. A next step considers whether potential EAS engagements that fall outside this plan (which recognizes resource limits) warrant addition to the initial plan. The initial plan generally incorporates an allowance for addressing emerging risks. The emergence of such risks leads to assessment of plan adjustments to address them. Monitoring of the plan through the year also includes adjustments for time freed up by early completion of engagements or deferral of others as required to address resource issues created by emerging risks or expansion of planned work as it progresses. For example, an expected engagement addressing a new system may require delay for unreadiness. The Exelon Board's A&R Committee reviews plan changes quarterly.

e. Partnership with Business Units

Partnership between EAS and Exelon's business units served as a cornerstone of the EAS transformation addressed above. Partnerships take several forms. Business units occasionally request an EAS consultative engagement to help ensure proper design and implementation of a new process. The EAS annual planning process includes consideration of such engagements. EAS might as well ask for consultation with business partners in assessing risks as part of developing the annual audit plan. Partnership also includes filling EAS positions with business unit personnel, bringing to its engagements useful business expertise. Similarly, EAS personnel have moved to business unit positions.

f. Audit Findings Follow-up

All audit findings receive low, medium or high ratings, usually accompanied by remediation measures to which the business unit involved has agreed. A Global Risk & Compliance (GRC) tool tracks open findings. EAS reviews remediation progress as due dates approach. The business unit involved must provide evidence of remediation in order to produce issue closure in the GRC. Issues continue in a "pending verification" status until closed. Moreover, depending on the importance of the finding and the adequacy of the remediation, EAS may plan a follow-up examination.

g. Audit Reports

We examined the list of audit reports issued by EAS from 2019 through 2022. From that list, we selected three groups of audit reports for review:
- Seven audits related to the DPA and Interaction with Public Officials (discussed later in this chapter)
- Seven audits related to the Cost Allocation process (discussed later in this chapter)
- Two audits related to compliance with ICC 604 (discussed later in this chapter)
- Six other audits relating to various control topics.

Reviews of these audits identified no audit process, execution, tracking, or closure concerns.

4. *Exelon Board Audit and Risk Committee*

We examined for the purpose of addressing audit matters the Charter for the Exelon Board's A&R Committee, which reflects merging of the formerly separate Audit Committee and Risk Committee at the Constellation separation. This report's Chapter Three, *Board and Top Leadership Direction*, addresses the role of the A&R Committee with respect to compliance and ethics. The Constellation separation eliminated from Exelon a significant set of enterprise-level risks associated with competitive generation and energy operations. The narrowing of enterprise-level risks substantially to those of electricity transmission and distribution produced both largely common attendance and subject matters for the two committees.

Our examination of the Exelon Board's A&R Committee charter (approved July 26, 2022) showed it to contain sections relatively standard and comprehensive with respect to audit activities. It included the expected requirement for executive sessions with the CFO, Corporate Controller, Sr. VP-EAS, EVP CA&R, and PwC, and committee power to retain and oversee the independent auditors. We found no significant differences with respect to audit matters in five versions of the Charter in effect between 2019 and the present.

The at least quarterly meetings of the A&R Committee, the executive sessions held between the CAE and the Committee, and the sample of minutes over the period 2019-2022 we examined demonstrated Committee engagement in audit matters, interaction with the SrVP-EAS, and information about audit plans, engagements, results, and remediation.

5. *DPA Implications for the Controls Environment and Accounting Integrity*

a. DPA-Related Policy and Controls Changes

DPA Attachment B requires ComEd, "to conduct, in a manner consistent with all of its obligations under this Agreement, appropriate reviews of its existing internal controls policies, and procedures and to address any deficiencies in its internal controls…." ComEd's commitment under Attachment B required it to ensure a system of financial and accounting procedures including a system of internal controls, reasonably designed to ensure the maintenance of fair and accurate books, records, and accounts.

Management has stated that the activities and circumstances leading to the DPA did not reflect the failure of any Key Financial Control, acknowledging nevertheless that deliberate controls

circumvention by a small group including senior leadership disclosed opportunities to strengthen the overall control environment. Management has cited a total of 15 internal controls changed or added to strengthen the control environment following the DPA. Four of those measures came in the form of new policies, all dated June 30, 2022, addressing interactions with and provision of things of value to public officials, public official requests regarding employment, monitoring of political consulting and lobbying activities, and requests by public officials related to Exelon vendors/suppliers. Chapter Five: *Securing Compliant and Ethical Performance and Behaviors* addresses the compliance and ethics aspects of these new policies.

Contemporaneously with these four new policies, Exelon added another significant one; *i.e.*, *Exelon Spending Policy and Authorization to Contract with Suppliers* (SM-AC-POLI1-001), effective July 28, 2022. This policy restricts the categories of expenses for which vouchers can be used to make payments, and increases the oversight of voucher expenditures. Voucher use contributed to the controls circumvention circumstances addressed by the DPA, and management has cited this new policy as significant in enhancing internal controls. However, management has also stated that the DPA and the circumstances and actions it addresses did not serve as the initiating cause of changes to control voucher use. Management reportedly had already begun to address by the summer of 2020 "leakage" resulting from use of vouchers for procurements that should have required a purchase order or contact, the lack of which reduced transaction transparency and control.

The new policy has restricted voucher use to approved vendors and for transactions outside those made under contract or purchase order (*e.g.*, taxes or utility bills). Vouchers had previously spanned an overly broad use of the term "Accounts Payable," potentially allowing for misinterpretation that a voucher could be used for any bill to be paid. The intended limit included only voucher transactions processed directly by an Accounts Payable team member.

Early 2022 questions from the Exelon Board's A&R Committee about the control environment trends led to an EAS review of issues and errors implicating control execution encountered since January 2019. The review examined whether those matters in aggregate reflected themes or patterns warranting additional management action. The review did not identify significant areas of concern but did disclose several recurring factors contributing to control execution lapses. This review identified several opportunities for strengthening the control environment and emphasized several initiatives already underway.

b. DPA-Related Audits

We examined seven audit reports with a connection to DPA issues or changes or to the new policies addressing interactions with public officials. A December 2020 Phase 1 report addressed funding, execution, and recording of the $200 million payment the DPA required of ComEd. The report disclosed no findings or needed remediation or other action.

ComEd made commitments to the ICC that its compliance with the DPA would not adversely affect its customers, which was reflected in its 2021 distribution formula rate update petition, ICC Docket No. 21-0367. A July 2021 DPA Phase 2 audit report addressed compliance with those ICC commitments, taking no exceptions and making no findings. The report found the applicable Key

Financial Controls designed and operating effectively, and ComEd in compliance with its ICC commitments.

EAS has also undertaken a multi-phased engagement to examine implementation and operational effectiveness of the four new policies relating to interactions with public officials and to ensure compliance with the requirements of the DPA. The report for Phase 1 of that engagement addressed the period from November 2020 through January 2021. Phase 1 tested the effectiveness of the four new policies, mapped the policies against the DPA to ensure that there were no gaps in the procedures, and validated the status of specific actions taken by the Exelon utilities and Exelon Business Services Company (BSC). EAS identified two issues that had the potential to lead to gaps with DPA requirements, involving training and the frequency of policy reviews - - both remediated prior to any actual gaps. The Phase 1 report also identified some issues in policy implementation, most related to implementation delays.

The report for Phase 2A of the multi-phase engagement addressed the period from April 2021 through July 21. The review focused on the initial annual report required by the DPA to be provided to the Department of Justice (DOJ) and was conducted under Attorney Client Privilege; management redacted the entirety of the report's substance in the version provided to us. The February 15, 2022 Phase 2B report addressed procedures and processes under the four new public official interaction policies. It followed the exceptions and recommendations made in the Phase 1 report. The Phase 2 report made two low risk findings and noted four areas for potential enhancements. A Phase 3A report, dated July 13, 2022 addressed the period from April 2022 through July 2022. The version made available to us redacted all of the report's substance, as this report was also conducted under Attorney Client Privilege and focused on the second annual report required to be submitted to the DOJ. The January 2023 Phase 3B report addressed the effectiveness of procedures designed to operationalize the Interaction with Public Officials policies. The report made two findings, accompanied by presentation of several enhancement opportunities:

- The reconciliation process between systems tracking vendor activity did not clearly identify mismatches or include sufficient documentation, with a quarterly reconciliation recommended as a formal, detective control.
- Personnel turnover prevented 2021 performance evaluations of covered third parties until mid-year 2022.

6. ICC Requirements

a. Section 604 Requirements

The requirements of Section 4-604 of the Public Utilities Act include some related specifically to internal controls:

- Publishing an annual ethics audit describing internal controls, policies, practices, and procedures to comply with statutes, rules, court orders, or other applicable authority. (subsection (c)(5))
- Chief Ethics and Compliance Officer oversight of at least annual reviews of internal controls, code of ethical conduct, practices, and procedures to assess continued effectiveness. (subsection (d)(2)(D))

- Chief Ethics and Compliance Officer oversight and assurance of development and implementation of internal controls, policies, and procedures to achieve the statute's objectives (subsection e)
- Submission of annual ethics and compliance reports to the Commission by May 1, beginning with 2022. (subsection f).

EC&E leadership reported that the annual review of internal controls required by Section 4-604(d)(2)(D) occurred through CC&EO review of information presented by the CAE in various meetings, but without direct CC&EO review of the overall control environment. The CC&EO reported to the same executive (the EVP CA&R) as the CAE. The retirement of the CC&EO around the end of 2022 has led, at least provisionally, to adoption by the EVP CA&R of the CC&EO role directly.

We examined the first annual report to the Commission dated April 27, 2022. Other control issues noted above are covered in other sections of this report.

b. ICC-Required Audits

We examined efforts to address two biennial, even-year internal audits cited in 83.111 Admin Code 452.135c and 83.111 Admin Code 416.3. We examined the audit reports submitted in 2020 and 2022. The audits test compliance with rules associated with affiliate transactions that prohibit a utility from providing preferential treatment to its affiliates through financial and non-financial business activities. The results of the audits indicate that the processes and controls performed to ensure compliance with the requirements are effective. No audit findings were noted.

7. *Financial Accounting Integrity*

a. Systems

Exelon has used the Peoplesoft General Ledger Application since 2009. A number of other systems operate in conjunction with PeopleSoft to produce ComEd's financial records and reports; *e.g.*, PowerPlan (fixed asset subledger), Power Tax (tax depreciation and deferred taxes), PeopleSoft Intercompany Billing.

b. ComEd Account Segregation

The PeopleSoft General Ledger tracks ComEd results under a separate Business Unit that represents ComEd's financial results. Exelon maintains over 490 internal controls related to ComEd. Major ones include controls that provide assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. The monthly close process takes place at the ComEd level. The general ledger houses both GAAP and FERC accounts, allowing for regulatory accounting in addition to financial statement accounting. Each journal entry has a unique ID that allows for an audit trail to individual transactions. Rules and past commission decisions govern treatment of transactions requiring recording "below the line" for regulatory purposes. Consultation among Accounting, Regulatory and Legal and others, as necessary, address how to treat any new situations or circumstances, to determine the appropriate treatment.

        c.   Policies and Procedures

Exelon's Management Model includes accounting processes and operational policies, which documents governance, oversight, performance and support responsibilities. We examined a list of 56 such documents. We chose for examination seven Management Model documents:

- *Perform Monthly Accounting Close Process* (CA-DO-50)
- *BSC Intercompany Billing Process* (CA-DO-PCS-2-033)
- *Capitalization – Property Plant & Equipment Accounting Policy* (CA-AC-POL1-035)
- *Merger Acquisition & Integration Cost Tracking* (CA-AC-POL2-001)
- *Utilities Allocations Process* (CA-DO-114)
- *General Ledger Policy* (CA-AC-06)
- *Audit Committee and Compensation and Leadership Development Committee Meeting Materials Process* (CA-DO-PCS1-001).

In addition, we examined the Regulatory Accounting Policy Manual. Each document contained details about the process, including Purpose, Roles & Responsibilities, Process, Milestones, and other topics. Documents we reviewed indicated a review cycle of every three years; however, most bore dates more than three years old. Management cited the separation of competitive generation and energy operations and other needs as causes of the delay in undertaking scheduled reviews. Management also noted that the policies continued to reflect accurately the practices in place and followed.

        d.   Cost Allocation Process

We conducted a high-level review of the allocation of BSC costs to ComEd. Our examination did not reach a level that would confirm allocation accuracy, but did address allocations sufficiently to reach conclusions about the sufficiency of the process to provide reasonable assurances of the financial integrity of the ComEd financial results.

An Associate Transaction Procedures Manual, dated January 2022 governs BSC allocations to the client utilities, including ComEd. BSC has entered into a General Services Agreement or Service Agreement with each client company, including ComEd. The Service Agreements set forth in general terms the services to be performed by BSC directly or indirectly for the client companies. BSC and each client company then prepare Service Level Arrangements (SLA) to detail the provision of BSC services. We examined the most current General Services Agreement and SLA between BSC and ComEd, as well as the Associate Transaction Procedures Manual. The General Services Agreement defines the overall process. The SLAs define specific services agreed to and approved by the utilities. SLAs require review and revision on a three-year cycle, but usually undergo that process annually.

A Service Catalog defines all of the services offered by BSC, and the SLA refers to the Service Catalog. Depreciation related to assets owned by BSC are allocated first to the organization occupying the building or by other measures of usage, and then to the utilities based on their relative share. No return on capital is allocated to the utilities.

BSC direct charges to the appropriate utility for work done entirely for that utility. Allocations for indirect charges include cost causative metrics such as number of employees for Human Resources

costs, or number of customers for IT costs related to utility customer systems. When no clear cost causative factor can be identified, the costs are allocated using the Modified Massachusetts Formula (MMF) - - a three-tier composite ratio which includes gross revenue, assets, and direct labor.

We examined the factors used for 2021 per the 2021 FERC Form 60. We also reviewed the costs charged to ComEd from BSC for the three-year period from 2020 through 2022, making the following observations:

- The percentage (23 percent) of BSC costs charged to ComEd in 2020 and 2021 grew to 35 percent in 2022
- The percentage of BSC costs charged to ComEd by direct charge as a percentage of total BSC costs charged to ComEd remained fairly stable over this period, ranging between 29 and 34 percent
- The portion of BSC allocated costs using the MMF as a percentage of all BSC allocated costs to ComEd varied from 35 to 45 percent.

e. BSC Billing to ComEd

An intercompany billing process drives billings from BSC to ComEd. The system makes bills visible and producible on demand. Billing makes use of charges to specific code blocks, specific project IDs, sub-accounts and service IDs. We also reviewed the BSC Intercompany Billing Process (CA-DO-PCS2-003), as noted in section 7c above.

f. Cost Allocation Audits

We examined a total of seven audits related to cost allocation. ICC requirements noted earlier in this chapter occasioned two of them. We also examined the Cost Allocation audits for 2019, 2020, 2021, and 2022. None of them generated any findings. The last of the seven audits reviewed the TSA Day 1 Allocations & Billing Process, examined the impact on cost allocations and billing of the Transition Services Agreement (TSA) between Constellation and Exelon. That TSA defines intercompany services provided through 2024, in connection with transitions required by the Constellation separation. The audit found Key Financial Controls designed and operating effectively, with processes established to update cost allocations effectively throughout TSA duration. The report noted one low risk finding about the monthly review of time reports, but found no resulting billing inaccuracy.

g. ComEd Review of BSC Allocations

ComEd employees participate in the development of the BSC budget and get monthly reports providing actual to budget variances. In addition, the books close process and financial reporting processes for ComEd reside within ComEd, not BSC, making financial results, including allocated results from BSC more visible. ComEd provided the names of 23 individuals who review ComEd financial results as part of their responsibilities.

h. Regulatory Reporting

ComEd makes four principal financial report filings with the ICC annually - - ICC Form 21, FERC Form 1, FERC Form 60, and SEC Form 10-K. We examined these forms for 2019 through 2021.

8. *EAS Tariff Rider and Other Rate-Related Controls Reviews*

A significant number of controls-related examinations by EAS since 2019 have addressed compliance with ComEd tariff compliance, service company allocations, and other rate related matters. Many comprise regularly recurring examinations of annual or other recovery period costs incurred and revenues collected from ComEd customers. For example, some of them addressed earlier in this or preceding chapters of this report include the following:

- February 7, 2019 ComEd Rider Purchase of Receivables with Consolidated Billing Review examining compliance of 2017 and 2018 recovered costs, discounted receivables and customer billing adjustments with Riders PORCB and RCA
- June 27, 2019 Political Action Committee (PAC) Engagement reviewing PAC bylaws and process documentation, conducting inquiries with PAC managers, and performing data analytics on PAC contributions and expenditures to assess effectiveness of activities associated with Exelon-sponsored PACs as and ensure state and federal election agency compliance
- August 2, 2019 ComEd Rider Uncollectible Factors Review examining controls surrounding compliance with factors for 2017 costs incurred and related recoveries from June 2018 through May 2019
- August 21, 2019 ComEd Rider Zero Emission Adjustment Review examining controls surrounding rider compliance costs and customer billings from June 2018 through May 2019
- September 20, 2019 ComEd Rider Purchased Electricity Cost Recovery Review examining compliance with the provisions of Purchased Electricity Rider PE and Basic Electric Service Hourly Rate BESH
- October 28, 2019 BSC Cost Allocation Review examining controls surrounding the BSC Cost Allocation process for 2018
- August 5, 2020 ComEd Affiliated Transactions Compliance Review examining 2018 and 2019 activity to provide risk assurance over processes and controls to ensure compliance with the ICC Title 83 internal audit requirements and ComEd's internal affiliated interest agreement (AIA)
- August 18, 2020 ComEd Rider Uncollectible Factors Review examining controls surrounding compliance with factors for 2018 costs incurred and related recovery from June 2019 through May 2020
- September 15, 2020 ComEd Rider Zero Emission Adjustment Review examining controls surrounding compliance regarding costs and billings for the June 2019 through May 2020 billing year
- October 16, 2020 BSC Cost Allocation Review examining controls surrounding the service company's 2019 cost allocation process
- October 19, 2020 Rider Purchased Electricity and Rate Basic Electric Service Hourly Cost Recovery Review examining controls surrounding compliance with Rider PE and Rate Basic Electric Service Hourly Rate BESH for costs incurred and recoveries for the June 2019 through May 2020 period
- February 22, 2021 ComEd Rider Purchase of Receivables (PORCB) Review examining controls surrounding compliance, including cost recovery, discounted receivables, and customer billing adjustments for the period from January 2019 through December 2020

- March 24, 2021 ComEd Rider Distributed Generation Rebate Adjustment Review examining controls surrounding compliance with rider processes, cost recovery, and customer billing adjustments for the period from January 2019 through December 2020
- June 30, 2021 Political Action Committee (PAC) Engagement reviewing 2019 and 2020 PAC bylaws and process documentation, conducting inquiries with PAC managers, and performing data analytics on PAC contributions and expenditures to obtain assurance regarding PAC activity effectiveness and compliance PACs, as well as ensure compliance with state and federal election agency requirements reviewed
- August 20, 2021 ComEd Rider Uncollectible Factors Review examining controls surrounding rider compliance and addressing calendar 2019 costs incurred and related recoveries from June 2020 through May 2021
- September 17, 2021 ComEd Rider Zero Emission Adjustment Review examining controls surrounding compliance with rider requirements and addressing costs and billings for the June 2020 through May 2021 delivery year.
- September 17, 2021 ComEd Rider Renewable Energy Adjustment (REA) Review examining controls surrounding rider compliance and addressing the period from June 2017 through May 2021
- October 28, 2021 Business Services Company Cost Allocation Review examining controls surrounding the BSC Cost Allocation process for 2020
- November 15, 2021 ComEd Rider Purchased Electricity, Rate Basic Electric Service Hourly and Rate Time of Use Pricing Pilot Cost Recovery Review examining controls surrounding compliance for costs incurred and related recovery for the period from June 2020 through May 2021
- August 16, 2022 ComEd Rider Uncollectible Factors Review examining controls surrounding rider compliance and addressing calendar 2020 costs incurred and related recoveries from June 2021 through May 2022.

9. 2021 Affiliate Level Agreement Examination

Negotiations undertaken in the second half of 2021 to develop the TSA to support the Exelon/Constellation separation identified a longstanding failure of Exelon Generation and BSC to compensate ComEd fully for use of the utility's fiber networks. Management made retroactive billing adjustments back to 2001 and proposed corresponding rate credits to the ICC. Exelon also adopted a new annual Affiliate Level Agreement (ALA) attestation control to ensure the existence of ALAs and appropriate billings for all assets, services, and resources provided among affiliates. EAS examined operation of this new process, anticipating that its recent adoption would identify enhancement opportunities. The EAS examination found ALA attestation control design effective. It made two findings (addressed or in the process of being addressed) and observed four opportunities to enhance the attestation process, supporting procedures, and the overall ALA Program.

D. Conclusions

1. ComEd operates under an appropriate internal control framework.

Exelon adheres to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework. The COSO framework is a broadly accepted and widely used

structure for designing, implementing and evaluating internal control for US enterprises. The list of 491 Key Financial Controls that relate to or support ComEd is a comprehensive and appropriate list.

2. We found well-documented and complete processes for meeting SOX obligations.

Procedures are clear, logical and well-coordinated with PwC, the external auditor. Reporting of SOX deficiencies is consistent and in accordance with SEC requirements. Required reporting was done in accordance with regulations and was timely.

3. The EAS organization is well structured and staffed.

The reporting relationships of the Chief Audit Executive are appropriate. The Chief Audit Executive (CAE) reports functionally to the chair of the Exelon Board's A&R Committee and administratively to the EVP Compliance, Audit, and Risk, and meets regularly in private session with the chair of the A&R Committee. This is an appropriate reporting structure that maintains independence of the CAE.

EAS operates under an appropriate charter. The charter contains the expected level of detail and appropriate descriptions of the role and function of internal audit. There are a significant number of EAS auditors with advanced professional certifications. In addition, the latest Quality Assessment Reports (peer reviews) contained the highest rating with several strengths of the organization listed in the reports. The headcount and costs of the EAS organization have been relatively stable and reasonable. The variation due to the separation of Exelon Generation was logical and appears to have been well-managed. When new auditors are hired, the on-boarding training is significant and well-documented.

The EAS organization underwent a transformation in 2018 that improved the organization's effectiveness. This transformation was mentioned by the CAE as the reason he took the assignment and was also cited by the chair of the Exelon Board's A&R Committee in evaluating the effectiveness of the organization. Key elements were the improvement in risk assessment and partnership with the business units.

An effective partnership exists between EAS and the business units. This partnership was a central focus of the EAS transformation and was mentioned as a strength in the last Quality Assessment Report. EAS conducts consultative engagements from time to time and effectively moves staff into and out of EAS to and from the business units.

4. An effective approach to risk assessment drives annual audit planning.

The Risk Universe supplies an effective tool to assess and prioritize auditable risk in the building and modification of the annual audit plan. There is also substantial interaction among EAS, Enterprise Risk Management and EC&E to make sure that risk is appropriately assessed and that the activities of the three organizations are coordinated.

5. Audit follow-up procedures are consistent and complete.

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Audit findings are documented with remediation requirements agreed to by the auditee. These requirements are tracked until evidence of remediation is presented to EAS. Until closed, the issues are tracked and reported as open findings to the Exelon Board's A&R Committee.

6. Requirements of the DPA specific to the maintenance of a system of internal controls appear to be met.

While there are several DPA requirements that involve controls, the over-arching requirement is to "ensure that it (the Company) has a system of financial and accounting procedures including a system of internal controls, reasonably designed to ensure the maintenance of fair and accurate books, records, and accounts." Based on our review of the internal audit organization, the SOX process, and the focus on internal control at the executive and Board level, this requirement appears to be met.

7. Audits conducted by EAS related to the DPA and the interaction with public officials were thorough and timely.

The two DPA audits tested the funding, execution and recording of the $200 million payment imposed by the DPA, as well as the compliance with the ICC commitments. The review of the four policies was broken into five phases, which tested effectiveness of the policies, mapping of the policies against the DPA, and effectiveness of the procedures to operationalize the policies. Recommendations from the earlier phases were followed up in later phases.

8. The Exelon Board's A&R Committee operates under an appropriate charter and effectively discharges its responsibilities.

The Audit and the Risk Committee merged after the separation of Exelon Generation. The charter of the merged committee contains all the expected elements of an audit committee including oversight of internal auditing and the external auditors and the maintenance of an independent relationship with the CAE, as evidenced by regular meetings with the chair of the committee.

9. The review of internal controls by the CC&EO, as required by Section 604 (d)(2)(D) of the Public Utilities Act has not been explicit. *(See Recommendation #1)*

We did not find documentation of the review of internal controls, as required by ICC Section 604(d)(2)(D) of the Public Utilities Act. It appears that the CC&EO has relied on the SrVP-EAS's reviews as sufficient for compliance with this provision. More direct and documented engagement appears to be the goal of this provision, given that it is generally understood that the SrVP-EAS has broad responsibilities for reviewing internal controls.

10. The biennial audits required by 83 Ill. Admin Code 452.135c and 416.3 were completed for the years required.

The audits related to compliance with affiliate transactions are required on even number years. We examined the audits conducted in 2020 and 2022, in compliance with the requirements. The results of the audits indicated that the processes and controls performed to ensure compliance are effective. There were no audit findings.

11. **ComEd uses state-of-the-art financial systems, an account structure that provides assurance that ComEd results are properly recorded in conformity to GAAP and FERC requirements, and sound accounting policy documents.**

ComEd's results are captured in a separate business unit that is dedicated to ComEd. Multiple Key Financial Controls are present to govern the accounting process. Each journal entry has a unique ID that allows tracking of transactions to the appropriate accounts in the General Ledger. The monthly close is conducted at the ComEd level, which provides an opportunity for more focused ComEd review and analysis. Below the line transactions are reviewed to ensure compliance with regulatory requirements.

Accounting policy documents included in the management model appear to be complete and well-written, based on examination of a list of policy documents and the review of a sample. We examined the list of all policy documents. There were no obvious topics missing. We reviewed a sample of eight of the documents and found them to be inclusive of the key information expected to be present.

12. **Management has not completed policy reviews and revisions in accord with established cycles.** *(See Recommendation #2)*

Each policy document we reviewed indicated a three-year review cycle, but most bore dates more than three years old. ComEd's response was that review timing had been delayed due to other responsibilities.

13. **The cost allocation process appears well documented, and creates a system designed to produce reasonable allocations of BSC costs to ComEd.**

The processes are well documented in the Associate Transaction Procedures Manual and the BSC Intercompany Billing Process document. We examined the General Services Agreement and the Service Level Agreement between BSC and ComEd. Costs are directly charged when possible and allocated when services apply to more than one utility. The allocation methodologies use a number of cost-causative factors when appropriate, and the Massachusetts Modified Formula method, common among utilities, to allocate costs without a clear causation that suggests a specific metric. The percentage of BSC costs allocated to ComEd seemed reasonable, given the relative size of the utilities and the consistency over time, including the impact of the Constellation separation. Billing is done through an intercompany billing process that produces bills similar to external vendor bills. Review of seven cost allocation audits reinforced the conclusion that the cost allocation process was working as intended and is well controlled.

Note, however, that our review did not reach a level designed to validate the propriety and accuracy of cost allocations for any group or time period.

14. **Financial reports required to be filed with the ICC have been filed as required in a timely manner.**

We examined the four required financial reports for each year from 2019 through 2021 and found them to be timely filed.

E. Recommendations

1. Conduct a more explicit and documented review of internal controls by the CC&EO, in compliance with Section 604(d)(2)(D) of the Public Utilities Act. *(See Conclusion #9)*

A review by CC&EO distinct from that of the SrVP-EAS about internal controls is required by the statute.

2. Review all policy documents in a timely manner, per the review cadence called for by policy. *(See Conclusion #12)*

Most of these documents would likely not have significant modifications; nevertheless, adherence to the stated review timing is important. That review would best assure broad understanding of requirements, processes, and practices and would ensure that the need for change is regularly assessed. It would also better support a sound controls environment by avoiding any appearance that inattention to review cycles reflects diminished priority on execution of the controls themselves. Effective controls require an attention to detail and an emphasis on application that is best reinforced by following established review cycles.

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Appendix One: Audit and Risk Committee C&E Notes

This appendix summarizes Exelon Audit (later Audit and Risk Committee) consideration of compliance and ethics matters.

The ***December 2019 meeting*** brought an annual compliance and ethics review from the Chief Ethics and Compliance Officer. The officer reported continuing execution on a "commitment to continuous improvement," an Exelon-wide analysis and condition assessment expected to "inform specific remediation activities," citing a number of areas - - some of them with efforts already begun:

- Engaging leadership through individual discussions with new executives regarding compliance responsibility and accountability
- An external audit of sexual harassment protocols and investigation procedures
- Clarification of prohibited conduct
- Improvement of prevention efforts and investigation processes
- Increasing risk-informed training and awareness and communications
- Increasing compliance and ethics visits with leadership teams.

Following an apparently brief review at the ***April 2020 meeting***, the first at which the newly appointed Executive Vice President, Compliance and Audit Services came before the committee, substantially more detailed reporting followed. That new executive provided a detailed update on compliance program status and next steps at the next, ***July 2020 meeting***. The materials addressed reviewed the substantive and reporting requirements, many described as "best practices" of the DPA and the controls, policies and procedures requirements it imposed for the purpose of violation detection and deterrence. The meeting also reviewed the four new public official interaction policies that became effective earlier that month and noted compliance training already underway.

The description of the current compliance program noted a strong culture and the departure that incidents and circumstances leading to the DPA reflected. The presentation to the committee identified as key program challenges better defining responsibilities among the central compliance group and the business group, enhancing the visibility of the compliance function, strengthening the annual process for assessing compliance risks, and enhanced information sharing and training. A promised assessment of compliance staffing would address task shedding and consolidation, supporting the objective of increasing his organization's focus on "core compliance tasks." As would be customary through the period our review of minutes covered, the meeting reviewed details on alleged code violations and provided the new Executive Vice President, Compliance and Audit Services an executive session with committee members.

The ***January 2021 meeting*** focus on compliance and ethics turned to a review of progress in addressing the areas noted in the prior, December 7, 2020 meeting. The Executive Vice President, Compliance and Audit Services summarized progress in implementing the new public official interaction policies, employee training conducted, the system for tracking public official communications, and virtually total completion of lobbyist and political consultant due diligence reviews and questionnaires, work with the Exelon Supply organization to tailor an existing portal generally used for vendors to enable transparency and control over those with connections to

political officials. The presentation also addressed review underway of all contracts with lobbyists and political consultants to ensure contract language tracking the policy requirements recently made effective and current efforts to negotiate conforming language in new or extended contracts. The CC&EO detailed the sources, numbers, and disposition of public official requests, recommendations and referrals logged in the system created to make them transparent and subject to compliance review.

The *__April 2021 meeting__* continued to focus on public official interactions, noting implementation of controls requiring prepayment review of lobbyist and political consultant invoices and of the vendor controls reported at the last meeting. The Committee also learned of the completion of initial reviews of lobbyist and political consultant activity at ComEd and the impending completion of lobbyist and political consultant contract updates. EC&E also reported at this meeting completion of the overhaul of the compliance risk assessment process to focus on workshops directly engaging risk owners and others in the businesses affected and summarized status for each Compliance Domain used to align specific compliance risks.

The next, *__July 2021 meeting__* addressed the first of the three annual reports the DPA required Commonwealth Edison to file with the US Attorney's Office. It also highlighted six "high level" observations produced from a review of the compliance risk assessment process addressed in the Committee's most recent meeting:

- Universal agreement on the need for more compliance training, including modules targeted to specific areas or issues
- Variation in vendor vetting practices and inconsistent rigor in applying them
- Greater likelihood of lapses in cases where personnel transitions moved personnel out of material compliance roles, exacerbated by changes associated with the Constellation separation
- Lack of consistency in compliance culture, while important, contributed to by assessments inconsistency in focus and limited in scope, frequency, and use
- Observation of a strong linkage between clear and strong governance and resulting numbers of material compliance and ethics events
- Lack of reliability in those internal self-assessment processes that lacked independent testing.

Compliance and ethics continued to take a significant portion of the Audit Committee's attention at its next, *__December 6, 2021 meeting__*. The Executive Vice President, Compliance and Audit Services began with an update on preparing compliance program structure for the impending Constellation separation. His presentation cited knowledge transfer (a focus of the last meeting), compliance risk assessment under the revised process, and documenting significant compliance processes to mitigate the risk of knowledge and process losses associated with personnel transitions. The presentation also cited streamlining policies to reflect the departure of Constellation and its unique needs and challenges, the ethics helpline, Compliance with Illinois Energy Transition Act compliance and ethics requirements. EC&E also reported success in applying the recently adopted process for identifying vendors having some affiliation with public officials and in completing processes for dealing with other, related other substantive reporting and substantive requirements and practices.

The next, ***April 25, 2022 meeting*** received another fairly detailed presentation from the Executive Vice President, Compliance and Audit Services. As with the preceding one, it continued to pick up where information from the last meeting ended - - explaining changes in status and addressing new focuses. This presentation addressed key 2022 focus areas, citing knowledge and experience gaps due to transitions in personnel, the impending first ComEd annual ethics report under the Illinois Energy Transition Act, the second annual report under the DPA, working with business unit leaders in "expanding Exelon's compliance culture," and expanding vendor contracting and fraud controls. The presentation cited monitoring of recommendations from the 2021 compliance risk assessment and planning of 2022 compliance risk assessments, strengthened coordination with other functions on cybersecurity and NERC compliance issues, and, as usual, provided details on each logged interaction with public officials. The meeting minutes also noted the consolidation of Risk, Audit and Compliance functions under the Executive Vice President, Compliance and Audit Services and described at some length expected control environment enhancement.

Appendix Two: EC&E Quarterly Reports to Audit and Risk Committee

This appendix summarizes EC&E quarterly report to the Exelon Audit (later Audit and Risk Committee consideration of compliance and ethics matters.

EC&E's report covering the fourth quarter of 2018 summarized numbers of COBC alleged violations, cases opened and closed, and those pending, noting that none raise a special interest. It provided a brief narrative of a Respectful Workplace Initiative underway and closed with a 24-page summary addressing new cases opened. By 2022, the quarterly report to the Audit Committee had changed to a listing (generally in the range of 3 to 5 pages) of "New Notable Ethics Matters," consisting of a table listing by category (*e.g.*, Financial Integrity/Fraud, Retaliation, Sexual Harassment) a description of each underlying issue or allegation, a summary of investigation findings and resolution, and the business unit involved.

EC&E also shared with the Audit Committee an Annual Compliance and Ethics Program Report for 2019. This report depicted the compliance and ethics programs applied, and it described where responsibility lay for their governance, oversight, performance and support resided. It summarized strategic initiatives for 2019 and it summarized performance against 19 indicators for each quarter of 2019 and for preceding years overall back to 2012. It provided a summary discussion of "hot" compliance topics and actions or measures at Exelon addressing them. It depicted ethics cases by the Exelon entities where they originated over a number of years, categorized the issues they raised by category, and compared Exelon data in a number of categories with a benchmark. It also addressed changes in responses to compliance and ethics questions from the most recent employee engagement surveys. An appendix listed the 53 compliance risk areas and the personnel assigned to them, closing with a heat map showing where each of the 53 risk areas ranked relative to their probability of occurrence and their severity.

EC&E began a series of Compliance Program Updates to the Audit Committee following the DPA, with the first for July 2020. That 16 page report:
- Explained the requirements of the DPA
- Summarized the purposes, scopes, and requirements of the four July 2020 policies adopted to address interactions with public officials
- Briefly commented on the Exelon's "strong" compliance culture and program, while citing the use of "lessons from Illinois" to strengthen that program
- Summarized the current compliance program structure
- Cited a series of seven "key challenges"
- Listed six sets of activities charting a "Path Forward."

The key challenges identified included in program organization and its visibility into compliance risks, oversight, risk assessment, information sharing, non-core compliance organization responsibilities, and limited reporting on compliance activities to senior management and the Audit Committee. The six Path Forward items comprised:
- Improving documentation of responsibilities of business units, Compliance, Risk, and Audit by providing clear definitions of responsibility and assignments of accountability, increasing compliance organization's visibility into compliance functions managed by the

business units, and improving coordination among Compliance, Audit, and Risk functions (responsibility mapping targeted for completion in the third quarter of 2023)

- Improving compliance communications and training through regular compliance updates to business leaders, a central directory of compliance training, sharing of training modules across business groups, developing targeted training modules, and creating an intranet location for sharing compliance related information and resources
- Redesigning the compliance risk assessment process to align with Risk and Audit framework, reduce use of questionnaires, and strengthen identification of emerging risks (targeted for completion in time for fourth quarter 2020 risk assessment)
- Strengthening compliance issue reporting to board and senior management by moving to new software for recording and tracking data, inventorying all systems that track compliance data to identify reporting gaps, and using enhanced data for improved reporting (software and inventorying scheduled for completion in third quarter of 2020 with data collection and reporting enhancement continuing into 2021)
- Assessing compliance personnel and staffing, considering redefined responsibilities, greater allocation to core compliance tasks, non-core task shedding and automation (task inventorying in progress with resource assessment and reallocation targeted for fourth quarter 2020 completion)
- Conducting an EAS audit of compliance program alignment with U.S. Justice Department guidance on Evaluation of Corporate Compliance Programs (described as in process of scoping and scheduled for performance in late 2020).

Five similarly labeled Compliance Program Update reports have followed through mid-2022. Beginning with the next, a more than 30-page document, these reports moved past the baseline elements addressed in the one described above and becoming more detailed, addressing and regularly providing quantitative performance data on subjects such as

- Interactions With Public Officials policy implementation and training
- Details regarding public official requests, recommendations, and referrals
- Regulatory ethics, training, and certifications
- Current program initiatives and focus areas
- Assessing compliance program effectiveness.

These update reports fell in length over that period to less than 10 pages, providing similar types of information but at a lesser level of detail, occasionally providing treatment of specific topics (*e.g.*, Illinois Energy Transition Act compliance & ethics requirement implementation; Second Annual ComEd DPA Report). The July 2022 version provided a two-page treatment on developments between the first and second DPA of three required annual reports to the U.S. Attorney's Office, status of the 2022 compliance risk assessment and how it changed, and benchmarking of ethics investigation data against that of other enterprises, and a recap of public official interactions recorded by category and summary information about their disposition. The report also focused on an intervention by an Exelon employee to assist a public official. It described the circumstances, EC&E's investigation, factors contributing to the failure of the matter to have been escalated within the group (Customer Service) involved, the resolution of the matter, and a series of identified improvement opportunities. Those opportunities included

- Reinforcement of the expectation of prompt reporting of public official requests - - addressed through reinforcement in second quarter training sessions with utility Government Affairs teams
- More detailed training of Customer Operations personnel - - addressed through training to the entire department of the utility involved and the Customer Operations leaders of all the Exelon utilities
- Improved communications within Customer Operations - - expected to be addressed through reinforcement with front line and back office personnel in the affected business groups of proper documentation of circumstances like those involved
- Guidance to other operations departments - - actions to be conducted not addressed specifically.

Appendix Three: 2015 Risk Assessment Template Entries

The key entries as described in that older template included:
- Relevant laws, rules and regulations applicable
- New laws or regulations identified
- Changes in company activities or business conduct that could affect risk profile
- Rules, laws, regulations no longer applicable
- Emerging issues, laws, regulations affecting business activities in the next 6 to 12 months
- Changes in regulatory authority oversight of business activities
- Business conducted outside the United States
- Changes to compliance contact or Process Owners
- Organizational changes that could affect risk ratings
- New or changed processes or controls
- New technology or tools
- Compliance control issues (near misses) exposed by internal controls
- Mitigation plans adopted for any control failures identified
- Potentially significant compliance requiring enforcement authority adjudication
- Disciplinary actions from potential violations
- Mitigation plans developed and implemented following violations
- Internal or external audits since last risk assessment
- SOX or other control deficiencies related to compliance controls
- Control weaknesses affecting ability to manage confidential information
- Increased reputational risks to the company
- Government funds requests, applications, or awards
- Risks of fraud and how addressed
- Prior Year Significance Rating
- Current Year Significance Rating
- Prior Year Likelihood Rating
- Current Year Likelihood Rating
- Explanation of difference in ratings from prior year.

Appendix Four: 2018 Compliance Risk Assessment Summary

This appendix's summary of the 2018 process shows assessment steps and results typifying pre-DPA compliance risk assessment.

2018 Compliance Risk Assessment Summary

Minutes for the April 27, 2018, second quarter meeting of the Exelon Ethics & Compliance Steering Committee meeting show attendance by 15 people. It included a SME-delivered RC program update generating a discussion of new and potential standards, audit execution, and patching. The meeting addressed compliance culture, specifically the need to ensure leadership. The committee reviewed current EU data privacy law, Exelon compliance requirements and the steps required to comply with new EU requirements coming. The committee also reviewed a number of vendor cyber breach or vulnerability situations during the quarter. A review of first quarter corporate compliance metrics disclosed no reports of potential material violations.

The Committee's August 21, 2018, third quarter meeting had 16 participants. The meeting reviewed a July presentation to the Exelon board's Audit Committee, with Audit Committee members reportedly raised questions about the ability to predict and become more proactive about behavioral issues. Plans existed for making the same presentation to Exelon's Executive Committee on August 29, 2018. The third quarter meeting also discussed a number of data reporting issues, including means to secure additional benchmarking data from the vendor used and on developing data to determine the source of more cases at Exelon Utilities.

A SME presented a cybersecurity update, emphasizing changing and growing threats, with the biggest 2018 change coming in third party attacks. The discussion addressed metrics about those attacks and questioned how certain attacks occur. The meeting noted a Security Center by the Executive Committee. The meeting addressed the status of the risk assessment process and reviewed second quarter metrics.

The Exelon Ethics and Compliance Steering Committee met on October 31, 2018 under an agenda calling for a one-hour meeting to address:
- The Risk Assessment Process and Results
- Corporate Compliance Q3 2018 compliance metrics and trends, compliance and ethics Key Risk Indicators (KRIs), and relevant Internal Audits
- Compliance trends and emerging issues, privacy legislative update
- Risk alignment update
- Roundtable discussion.

A meeting presentation explained the risk assessment process as employed then, describing three principal phases in the yearly cycle:
- SMEs complete a risk assessment questionnaires and submit materials
- Complete Challenge Sessions with Steering Committee Members (with EAS & ERM groups invited to attend)
- Present 2018 Heat Map to Steering Committee at Q4 meeting, ready for final review.

Appendix Five: 2019 Compliance Areas and Risks

Category	Compliance Area	Description/Risk
Government	Antitrust	Principal antitrust laws include Sherman Act, Clayton Act, Federal Trade Commission Act, Robinson- Putnam Act, Hart Scott Rodino Act and State Antitrust
	Campaign Finance Federal & State PACs	Federal and state campaign expense reporting statutes and regulations addressing PAC contributions, disbursements, and administration
Enterprise-Wide & Finance	Cyber Security	Executive Branch and legislation safeguarding information technology and computer systems.
	Environmental Compliance	Exelon Environmental Management System Program, EN-AC-10, Rev. 7, Appendix A – U.S. Environmental Laws Applicable to Exelon EMS.
	FERC Interlock Rules	18 C.F.R. PART 45 procedures for pre-approval of individuals seeking holding interlocking, potentially conflicting positions.
	FERC Standards Of Conduct	18 CFR Part 358 and FERC Order 717 Series prohibition on transmission customer discrimination or preference.
	Foreign Corrupt Practices Act (FCPA)	Prohibition of payment officers to foreign officials political parties, candidates to obtain or retain business.
	Occupational Health and Safety	FMLA (29 CFR 825), Medical Records Act and Genetic Information Nondiscrimination Act; U.S. EEOC regulation of ADA (28 CFR part 36) compliance.
	Occupational Safety and Health (OSHA)	Responsibility for providing safe, healthful workplace; OSHA setting and enforcement of standards; provision of training, outreach, education, and assistance.
	Privacy	Governing rules include the state breach notification, unfair and deceptive trade practices, Fair Credit Reporting Act, FACT Act, FTC Red Flag regulations, Gramm-Leach Bliley Act, Children's Online Privacy Protection Act, Health Insurance, Portability and Accountability Act, Smart Grid privacy and Payment Card Industry Data Security Standards.
	Records Management (non-Nuclear)	Legal and regulatory authorities documented in Exelon Records Retention Schedule LE-AC-401 Exhibit A.
	Sarbanes-Oxley Act	Sections 302 and 404 of the Sarbanes Oxley Act of 2002 cover management's assessment of internal controls over financial reporting and disclosures.
	Securities Law Reporting Obligations	Federal laws requiring Form 8-K disclosure of material developments and events.
	Securities Law Insider Trading Securities Regulation	Securities Exchange Act of 1934, Section 16, and Section 10b-5, Rules 16(a) and (b), Rule 10b5-1 and corporate procedures controls regarding buying and selling of securities.
	Securities Law Reporting Obligations	Federal securities laws require periodic (annual and quarterly) reporting on Form 10-K and 10-Q.
	Securities Law: Regulation FD	SEC Regulation FD regarding disclosure of material information that could advantage market participants; requirement to disclose material information through broad public dissemination.
	TCPA	Telephone Consumer Protection Act (47 U.S.C. 227) and, regulations, FCC orders restrict telephone solicitations, automatic dialing systems, artificial or prerecorded voice messages, SMS

|		
		text messages, and fax machines.
Employment	EEOC, Anti-Discrimination	Federal, state, local laws and regulations prohibiting discrimination on the basis of legally protected categories
	Employee Benefits	Laws governing benefit plans: Employee Retirement Income Security of 1974 and 1986 Internal Revenue Code.
	Labor Relations	Federal laws prohibiting interference with employee rights to organize and engage protected concerted activity.
	Reporting	Federal, state and local laws and regulations requiring documentation and records supporting employment eligibility, affirmative action, other employment related matters.
	Wage & Hour Laws	FLSA minimum wage, overtime pay, recordkeeping, and employment standards.
Wholesale & Retail Wholesale & Retail	CFTC/ Dodd Frank/ Exchange Trading	Dodd-Frank transparency, risk management, accountability, structural oversight requirements; including transaction and counterparty documentation and reporting, swap and futures exchange position limits; CFTC 17 CFR general regulations.
	FERC Anti-Manipulation Compliance & Market Behavior	CFTC and FERC regulations prohibiting market manipulation or manipulative transaction conduct; wholesale sales subject to market behavior and wash trade rules, information retention, price reporting, statements to FERC, ISOs, and market monitors.
	FERC Capacity Release Regulations	FERC rules on secondary release of gas pipeline capacity and requirements for secondary releases.
	FERC Gas Filings	Compliance with natural gas filings regulated by the National Gas Act, including Form 552.
	FERC Market-Based Rates	FERC Market Based Rate authority required to engage in wholesale transactions; ongoing obligations; regular filings.
	ISOs and RTOs OATT Compliance	ISO and RTO tariffs and rules; Open Access Transmission Tariffs in non-RTO/ISO markets.
	Retail Compliance Program	Retail Supplier regulatory and licensing requirements, and jurisdictional interests, including state utility commissions, AGs, elected officials, DOE, FERC, DOJ, and ISOs/RTOs.
Government	Government Contracting – Retail	Federal Acquisition Regulations, state regulations, municipal procurement regulations, Dodd-Frank "special entity," SEC "municipal advisor" registration.
	Import/Export Laws (Nuclear)	Import/Export Laws and federal regulations limiting exchange of information with foreign national or entity; *e.g.*, selling nuclear operating procedures. (10 C.F.R. Parts 810 and 100)
	Intellectual Property Infringement Protection	Encouragement of employees to identify innovations; providing a framework for documenting, evaluating, protecting and enforcing intellectual property rights.
	Lobbying and Governmental Activities	Federal, state, local lobbying statutes and regulations dictate requirements for registration and reporting of various costs associated with activities pertaining to the influencing of legislation, regulations, and/or administrative action.
Utilities	NERC Reliability and CIP Standards	NERC Electric Reliability Organization bulk power reliability standards pursuant to FPA section 215; Federal Energy Policy Act, NERC Reliability Standards, NERC Rules of Procedures and FERC Order 693 and 706.
	State Utility Commission Illinois (ComEd)	Applicable rules and regulations include 83 Illinois Administrative Code, Illinois Public Utilities Act, Numerous ICC Final Orders, certain ComEd tariffs.

	State Code of Conduct Illinois (ComEd)	ICC rules regulate how distribution company may operate, restrict services offered and marketing activities conducted (83 IAC Ch. Chapter 1, Subchap. c, Part 452)

Appendix Six: Corporate Compliance Heat Map Example

The next illustration shows by compliance area the "heat map" resulting from the 2019 risk assessment process. The following table associates the numbered, circled items with those compliance areas.
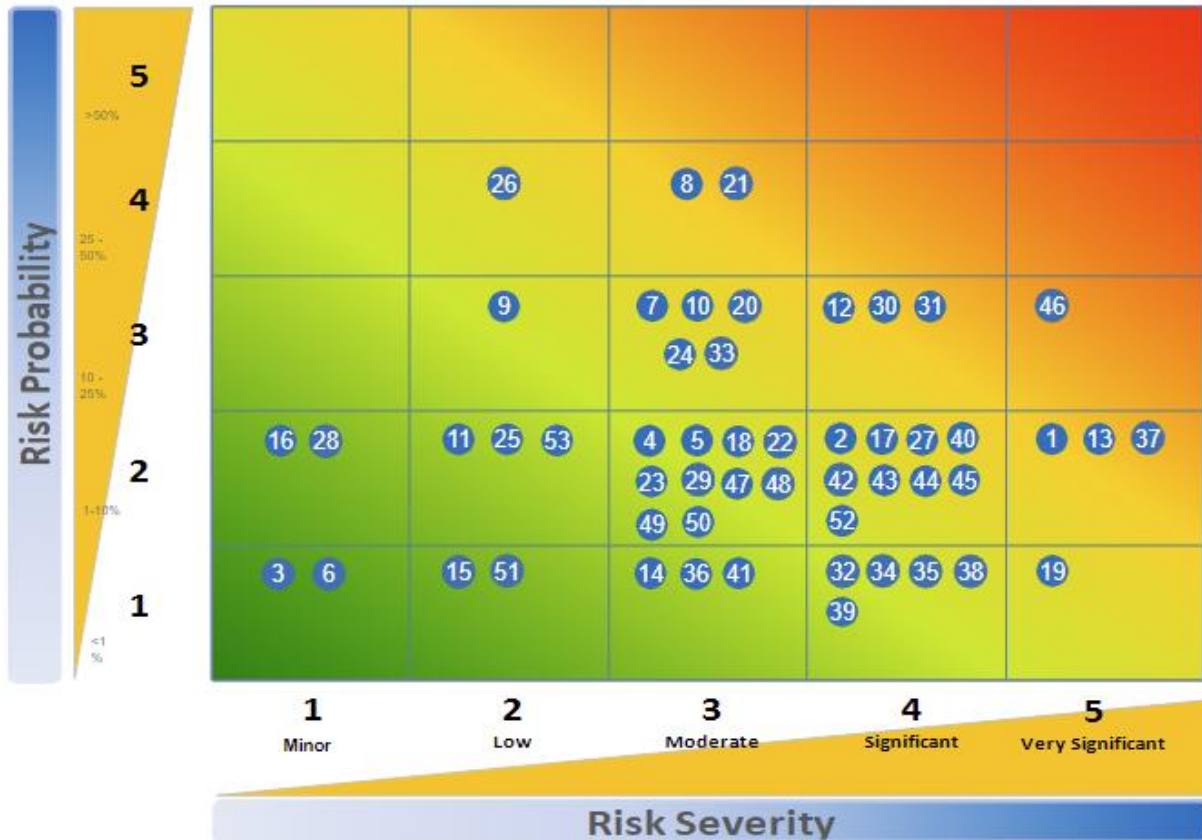
2018 Heat Map Identifier	Compliance Area
1	Antitrust
2	Campaign Finance / Federal and State PACs
3	CFTC/Dodd Frank/Exchange Trading
4	Chemical Anti-Terrorism Facility Standards (CFATS) - BGE
5	Chemical Anti-Terrorism Facility Standards (CFATS) - PECO
6	Cyber Security
7	Employment: EEOC (f/k/a Anti-Discrimination)
8	Employment: Employee Benefits
9	Employment: Labor Relations (Union)
10	Employment: Reporting (I-9)
11	Employment: Wage & Hour Laws (FLSA)
12	Environmental Compliance
13	FERC Anti-Manipulation Compliance and Market Behavior Rule
14	FERC Capacity Release Regulations
15	FERC Gas Filings
16	FERC Interlock Rules
17	FERC Market Based Rates and Reporting
18	FERC Standards of Conduct
19	Foreign Corrupt Practices Act (FCPA)
20	Gas System Compliance - Delaware (DPL)
21	Gas System Compliance - BGE
22	Gas System Compliance - PECO
23	Government Contracting – Retail
24	Import/Export Laws (Nuclear)
25	Intellectual Property Infringement Protection
26	ISOs and RTOs and OATT Compliance
27	Lobbying and Governmental Activities
28	NERC Reliability and CIP Standards
29	Occupational Health and Safety
30	Occupational Safety and Health Act Compliance (OSHA)
31	Privacy
32	Records Management (non-Nuclear)
33	Retail Compliance Program
34	Sarbanes-Oxley Act
35	Securities Law: Current Reporting Obligations
36	Securities Law: Insider Trading/Securities Regulation
37	Securities Law: Periodic Reporting Obligations
38	Securities Law: Regulation FD
39	State Public Service Commission - Maryland (Pepco, DPL)
40	State Board of Public Utilities - New Jersey (ACE)
41	State Public Service Commission - Delaware (DPL)
42	State Public Service Commission - District of Columbia (Pepco)
43	State Public Service Commission - Maryland (BGE)
44	State Public Utilities Commission - Illinois (ComEd)
45	State Public Utilities Commission - Pennsylvania (PECO)
46	State Regulatory Code of Conduct - Illinois (ComEd)
47	State Regulatory Code of Conduct - Maryland (BGE)
48	State Regulatory Code of Conduct - Maryland (Pepco, DPL)
49	State Regulatory Code of Conduct - Pennsylvania (PECO)
50	State Regulatory Standards of Conduct - Delaware (DPL)
51	State Regulatory Standards of Conduct - District of Columbia (Pepco)
52	State Regulatory Standards of Conduct - New Jersey (ACE)
53	TCPA

Appendix Seven: Compliance Risk Assessment Report Summary

The 2021 Compliance Risk Assessment Report summary noted that activities underlying the 2021 compliance risk assessment sought a more comprehensive and flexible process that would enhance identification of the range of compliance risks, changes in them, opportunities to improve management of them, and develop more actionable information for business teams in identifying and managing compliance risks.

The 2021 Compliance Risk Assessment Report also provided information and insights about Exelon and broader industry compliance-event experience, benchmarking, Justice Department guidance on the Evaluation of Corporate Compliance Programs, Ethics & Compliance Steering Committee input as sources for establishing the 11 domains into which 2021 work classified compliance risks. The report then summarized the workshop process, attendees, and outputs.

Risk Assessment Improvement Observations: The 2021 Compliance Risk Assessment Report identified six observations (addressed in the following subsections) applicable across Exelon compliance programs.

Compliance Training: A first group of observations noted that a need for more extensive and focused compliance training had arisen at nearly all workshop meetings associated with 2021 risk assessment and mitigation. Existing training reportedly already covered a range of subjects, included elements mandatory for all employees, specialized modules for covered employees (*e.g.*, FERC Standards of Conduct, interaction with public officials), and completion tracking. However, nearly all other compliance training, managed by teams within the businesses, varied greatly in depth, frequency, cycle, and regularity. Three specific, role-based training improvements needed comprised:
- Prompt training tailored to the roles of personnel moving into positions having specific compliance responsibilities
- Consistent, periodic, and regularly refreshed training on compliance issues relevant to individual roles
- Provision of resources for employees to question between training sessions.

Customer care and billing (involving access to sensitive customer information and insider trading risk) received mention as examples of these needs. The report noted that the needs did not relate to training required by regulation, but to training designed to assist employees in understanding and executing their compliance responsibilities.

The 2021 Compliance Risk Assessment Report cited reliance on existing systems to deliver and track training for groups with well-established and resourced training functions (*e.g.*, the nuclear and utilities organizations) positively, but noted cost challenges in addressing similarly the needs of smaller groups and those with more particularized training requirements. The report also noted the difficulty in searching the outdated repository for tracking training covered by the existing systems and the lack of any formal repository for training not covered by the system, which often lack the necessary expertise to handle the mechanics of assigning and tracking completion of training.

The 2021 Compliance Risk Assessment Report recommended the following with respect to training:
- Increased emphasis on ensuring delivery of training for those taking on new roles, and regular refreshment
- A review of governance training infrastructure
- Making training administrators and experts more accessible to all groups to strengthen role-based compliance training and make it more efficient.

Focus on Culture and Cultural Assessment Processes: The 2021 Compliance Risk Assessment Report also addressed a number of observations about Exelon's compliance culture. The report described the importance of complementing compliance policies and procedures with a strong leadership and employee commitment to "ethical business practices and compliance with legal and regulatory requirements." Workshop dialogue disclosed biennial Employee Engagement Surveys as consistent means for securing compliance culture information and a lack of consistent use of the information produced across Exelon. The last such survey at the time (from 2019) asked only limited compliance questions (five in number). Workshops disclosed that some departments made at most minimal use of the responses to those questions.

The report cited a recent ComEd initiative to strengthen its corporate culture, engaging senior utility company leadership with a corporate culture consulting firm, Partners in Leadership. This initiative's focuses reportedly included defining cultural priorities, identifying behaviors needed to achieve cultural goals, and learning how to cultivate those behaviors. The cultural priorities reportedly defined by the utility's leadership addressed "building trust, transparency, accountability, and candid and respectful feedback among all ComEd employees." The consulting firm was reportedly engaged in a multi-year effort to educate employees in and make sustainable those priorities. The report also noted a recent ComEd request the EC&E develop for discussion with mangers scenarios addressing recurring ethics issues, to reinforce ethics expectations. ComEd reportedly had plans to pilot such discussions in late 2022 for broader rollout in 2023.

The report cited efforts begun or recommendations to address the following with respect to culture and cultural assessment:
- EC&E work with HR to support meaningful analysis of compliance culture information gleaned from the next Employee Engagement Survey
- EC&E work with EAS on design of an enterprise-level compliance culture strengthening effort
- Consider efforts, not necessarily at the same scale as those at ComEd, to strengthen Exelon's compliance culture on an enterprise-wide basis.
- Make EC&E available to support ethics discussion scenarios more broadly across Exelon.

Compliance and Control Lapses During Personnel Transitions: The 2021 Compliance Risk Assessment Report also made a number of observations about the impacts of position changes on compliance risk. It noted that risks of error become more likely when transitions in responsible personnel occur, with "institutional knowledge" requiring an effective transition. No master list of compliance responsibilities and ownership existed. The report did cite EAS establishment of a system to alert it to personnel transitions, after observing increased frequency of key financial

controls execution issues following such transitions. The report noted that then-pending separation of Exelon's electric and gas utility business from its commercial power and energy operations would increase personnel-related compliance risks enterprise-wide, requiring new and trained leads in operations affected. Workshop discussions disclosed cases where management did not recognize that departing employees had significant compliance responsibilities.

The report cited the following as important to recognize with respect to loss of personnel exercising compliance and control functions:
- Ensuring effective management of knowledge of compliance processes
- Updating documentation of compliance procedures
- Maintaining organized records of performance of compliance activities
- Training back-up personnel for compliance functions
- Identifying replacements in time to provide effective overlap and transition where possible.

Vendor Vetting and Oversight: The 2021 Compliance Risk Assessment Report observations noted that some groups (*e.g.*, Supply and CISS) employed central processes to vet vendors, some compliance programs employed their own vendor vetting processes, and some other groups had recently initiated improvements to vendor vetting with respect to cybersecurity risk.

The report observed, however, several areas of potential improvement:
- Extending vendor vetting controls to groups making significant purchases credit card purchases of supplies
- Enhancing monitoring of vendor performance issues raising compliance risks, citing vendor errors contributing to self-identified NERC compliance issues
- We have observed that vendors perceived to have strong Exelon connections, including former Exelon employees in key roles, do not always receive the same level of oversight and scrutiny as other vendors.
- Clearly informing vendors about Exelon's compliance-related expectations (e.g., through a vendor-specific code of conduct, rather than relying on the nominal applicability of the overall Exelon COBC to vendors, as well as employees)
- Extending the strong safety related vendor support and management practices to other aspects of relationships with vendors.

Correlation Between Strong Compliance Governance and Event Frequency: The 2021 Compliance Risk Assessment Report cited strong governance and guidance documents as an attribute at the "most mature" of Exelon's compliance programs, but its observations included one noting that more significant compliance events tended to occur in areas subject to more diffuse governance. less robust documentation and training, weaker change management, and less-established lessons-learned processes. The report cited areas of strength and weakness, giving particular attention to circumstances leading to the DPA involving ComEd. Specifically, the report stated that:

> *It also bears note that the most serious recent compliance incident at Exelon – the behavior at ComEd resulting in the DPA – involved an area of compliance (interactions with public officials) for which the company had opportunities for considerable improvements in controls and governance.*

The report cited Exelon's Management Model, described in more detail above/below. This model is not a concise tool. It includes "a matrix of hundreds of policies, programs, and procedures" addressing Exelon operations. Policies and procedures for specific functions, including EC&E, form part of that model. Separate handbooks provide overviews of the model for the Exelon Utilities (of which ComEd forms a part) and Exelon Business Services Company (BSC), which provides a range of common services to Exelon's operating units.

The 2021 Compliance Risk Assessment Report noted that each business unit prepares for itself documentation addressing compliance responsibilities. However, the report went on to note that documentation for some units "removed from operations" did not reflect current processes, creating the potential for lack of employee understanding and increased regulatory and legal risk arising from failure to execute practices conforming to written policies. The report also noted that the Management Model's more than 6,400 documents required users to undertake basic word searches unsupported by any cross-referencing function among the documents to identify when changes to one document will require changes to others. Access logs for Management Model documents also showed wide frequency in efforts to attract them, with more than 400 not opened in many years.

The 2021 Compliance Risk Assessment Report did not make specific recommendations for improvement in this area.

<u>Self-Assessment Processes Lacking Independent Testing:</u> The 2021 Compliance Risk Assessment Report observed that self-assessments of two areas that did not independent testing unreliable. One of those cases involved NERC FAC-008 facility ratings, a "substantial majority" of them found erroneous following reliance on the work groups involved to assess their own work, with support from the NERC compliance management team limited to review of the self-assessment process design. The other case involved EC&E observations of errors (most commonly involving over-retention) when reviewing performance at units that self-reviewed "their own compliance with records management requirements, but [EC&E] has noted frequent errors when it engages with business teams on records management issues. The most common errors involve over-retention of records, which increases cost and risk."

The 2021 Compliance Risk Assessment Report stated that compliance assessments by sources independent of those responsible for compliance comprised a preferable practice.

<u>Compliance Risk Prioritization:</u> The 2021 Compliance Risk Assessment Report also discussed the existence of subjectivity and the lack of substantial value in continuing the prior practice of producing an annual heat map that plotted the severity and occurrence probability of identified compliance risks. The 2021 assessment replaced that approach with an identification of three compliance risk groups warranting leadership attention. The report described those three groups as follows:

- Highest Priority risks identified on the basis of the combined impacts of compliance failure, challenges in managing their failure risks, and incident history of Exelon and in the industry.

- Risks historically well managed at Exelon but encompassing significance and sensitivity requiring continuing attention to remain well managed
- Emerging compliance risks (produced by rapid regulatory or operating environment changes) and watch areas (involving risks of modest magnitude but in areas subject to improved management).

The 2021 Compliance Risk Assessment Report presented a list of Highest Priority risk areas, describing their nature, management responsibilities, control and mitigation measures, current changes and initiatives, and warranting focus, and as applicable improvement measures warranted. This report's Appendix Seven: *2021 Highest Priority Risk Areas* lists them.

The report presented a discussion of the second category; *i.e.,* compliance risks -managed currently but requiring continuing vigilance, listing as principal concerns ensuring resource adequacy in light of budget constraints and staffing transitions. The areas listed in this category comprised:

- Noncompliances (cited as minor) with generation requirements not involving ComEd
- Safety regulation violations causing serious injuries or fatalities, noting that, despite strong safety program documentation and processes, failures to follow proper practices had contributed to a recent incident increase.
- Inaccurate or untimely SEC disclosures, citing increased regulatory focus on ESG disclosures
- Failure to comply with environmental requirements, citing the need for monitoring to ensure that the transfer of certain responsibilities from central to operating company compliance personnel warranted monitoring to ensure continuing effectiveness
- Compliance with natural gas requirements not involving ComEd.

The report described a number of issues in the watch area category:

- Failure to allocate costs appropriately, noting that, despite strong processes for allocating costs, the complexity of Exelon's business and its many stakeholders produce a need for "greater rigor and documentation" in some areas, citing characterizing work capital or O&M and extent of use of direct billing to specific utilities as examples, particularly in the short run with regard to expected scrutiny over transition services provided to the departed non-utility business operations.
- Failure to protect sensitive industry information, noting the breadth of information covered by federal restrictions and noting the lack of an Exelon process to remove system and repository access by employees with insufficient or lapsed training demonstration and occasional failure of employees to recognize information sensitivity.

The report described the following areas under the emerging risks category:

- Increased scrutiny of ESG disclosures, citing recently expressed SEC intent to impose regulations in this area
- Federal cybersecurity and supply chain security laws, regulations, and directives expansion, noting a recent, rapid increase in them, calling for review of resourcing and governance processes, and noting federal contracting rules addressing cybersecurity

- Increasing state data privacy laws, noting differing state data breach notification requirements, expansion in state privacy laws broadly affecting customer data handling, restrictions on use of customer data, and the need for review and potential redesign of customer and employee data protections.

<u>Separation of the Competitive Power Generation and Energy Business</u>**:** The report emphasized the potential compliance risks related to the separation of Constellation Energy Corp. from Exelon scheduled for and eventually completed in early 2022. The workshops forming a core component of 2021 compliance risk assessment consistently noted the importance of managing the transitions of personnel with compliance roles. Those transitions would bring new persons to compliance roles, requiring training, resources, and support.

<u>Conclusions and Next Steps Identified</u>**:** The report's overall conclusions began with an acknowledgement of the strength of Exelon's compliance risk management overall, but went on to list "clear opportunities for improvement." It noted that compiling and revising workshop recommendations, prioritizing them, and identifying implementation resources and schedules remained underway. The specific recommendations made comprised:

- Strengthening role-based compliance training for employees having compliance roles
- Ensuring an efficient central system for delivering and managing training content.
- Enhancing the compliance culture by increasing shared understanding of the importance of compliance, to reduce the likelihood of noncompliance and make its detection and correction more timely
- Addressing loss of institutional knowledge of practices and responsibilities through "knowledge management;" (processes to document, share and preserve it through personnel transitions) by prioritized updating of key policies, clearly documenting processes and accountabilities, and monitoring transitions in personnel with compliance responsibilities.

A presentation summarizing observations from the 2021 assessment for Exelon's Executive Committee noted that the prior risk assessment process focused on 53 distinct risks and relied primarily on information secured through questionnaire responses. The presentation observed that the prior process did not promote reliable identification of material and emerging risks and gaps and improvement opportunities, limiting its value to teams conducting business across the Exelon family of companies.

Appendix Eight: 2021 Highest Priority Risk Areas

This appendix reports the highest priority risk areas identified as part of the 2021 compliance risk assessment process.

1. Failure to prevent or adequately respond to a cyber-attack, citing greater than normal diffusion of governance and maintenance of required expertise as areas that bore watching

2. Failure to protect customer personal information from access or disclosure and to comply with state privacy laws

3. Bribery, corruption, or other inappropriate interaction with public officials, placed in this category due to the "recency and seriousness" of ComEd conduct and the DPA and the frequency and sensitivity of interaction with public officials, and noting the need to closely monitor the effectiveness of "significantly improved" management of the compliance risks involved

4. Noncompliance with reliability and resiliency standards, particularly noting the NERC-related self-assessment concerns and the resource and governance model strains imposed by expanding government resiliency and security standards, noting however, overall strong NERC compliance performance record and reputation

5. Various Constellation energy market issues not related to ComEd

6. Fraud targeting Exelon or misuse of corporate assets

7. The scale and complexity of Exelon's operations, citing circumstances surrounding the ComEd DPA, among other internal and external examples, potentially violating the requirement to maintain sufficient systems of internal accounting controls

8. Fraudulent employee conduct to meet performance goals and metrics, citing internal examples of actions to produce misleading reporting of call center response times, allegations (involving ComEd employees) currently under review involving shifting time allocations from O&M to capital work, and discouraging the reporting of OSHA recordable incidents

Appendix Nine: Hot Spot Review Summaries

A Compliance Update presented to the board committee meeting of April 26, 2021 provided this hot spot review as part of an overall report of compliance and ethics activities. This EC&E report noted a number of recent accomplishments:

- Completed implementing control providing for Government Affairs review and approval prior to lobbyist and political consultant invoice payment
- Began initial reviews of lobbyist and political consultant activity, completing the first round of those reviews at ComEd
- With Government Affairs teams, planned 2021 live refresher training for key groups
- Added public official policies details to annual all-employee COBC training
- Conducted implementation lessons learned sessions with key stakeholders and reviewed policy language and implementation plans for potential refinements
- Participated in EAS policy and controls implementation audit
- Developed with Legal model lobbyist and political consultant contract term incorporating Exelon policy and DPA requirements
- Completed 90 of 92 compliant lobbyist and political consultant contracts
- Ended multi-year lobbyist and political consultant contracts.

The presentation also summarized interactions with public officials, categorizing them by Exelon entity (including the operating companies and the service company). The data showed 34 requests (broken down by the categories of Employment, Vendor, and Other), indicating for each (and by entity) the number accepted and rejected.

The presentation also listed completion status of compliance assessments by the then 10 compliance domains. Next risk assessment steps listed included:

- Completing remaining workshops and risk assessment reports and presenting results in the form of clear overviews of compliance risks, opportunities, and priorities
- Adding new and revised compliance risks to the comprehensive Compliance and EAS risk framework in the ServiceNow Governance Risk & Compliance tool, enabling improved monitoring and coordination with EAS.

The presentation also observed that the changed risk assessment process produced identification of additional compliance risks and more robust risk and control discussions, reflecting improvement by moving from the previous narrower and questionnaire-response focused process. It also highlighted areas subject to recurring observation or suggestions during the workshops:

- Strengthening onboarding compliance training for employees changing roles
- Improving change management processes to lessen controls and knowledge transfer risks from SME turnover
- Carefully reviewing controls to ensure ESG disclosure accuracy and consistency
- Monitoring risk that performance incentives drive undesired behavior
- Regularly evaluating the quality of data used to calculate KPIs and other metrics.

The presentation also reviewed the results of an investigation EC&E performed in collaboration with Supply, EAS, Human Resources, and business teams into two matters involving inappropriate expenses, finding:

- Lack of consistent supervisor reviews of subordinates' expenses, leading to escalation of problematic behavior
- Lack of detailed receipts for items purchased through credit cards
- Failure of employees to challenge or report "red flag" behavior
- Absence of a policy addressing performance of personal tasks by subordinates.

The recommendations to address these finding included:

- A new tool (AppZen) for use in revieing expenses for conformance with policy, including detailed receipts
- Corporate T&E policy tightening
- Added restrictions on voucher use
- Securing Level 3 transaction data to increase visibility into items purchased
- Joint Supply and EC&E training emphasizing new T&E and voucher controls and reviewer accountability for challenging questionable conduct
- Assessment of need for a policy to address performance of personal tasks by subordinates
- Review by Supply of need for added restrictions on company card use for Amazon purchases.

The first review, which covered the period from January 2018 through March 2021, summarized:

- Numbers of new matters
- Numbers of cases substantiated/partially substantiated (roughly half of those opened)
- Numbers of substantiated cases reported anonymously (20-25 percent)
- Categories with the highest substantiated/partially substantiated rates
- Respectful workplace, discrimination, and other employment concerns - - 49 percent of all 2020 substantiated/partially substantiated matters
- Misuse or misappropriation of company assets in second place at less than 25 percent
- Complaints addressing misuse or misappropriation of company assets and sexual harassment the most frequently substantiated.

A series of charts supported these observations, as the next one illustrates.

Substantiated/Partially Substantiated Cases
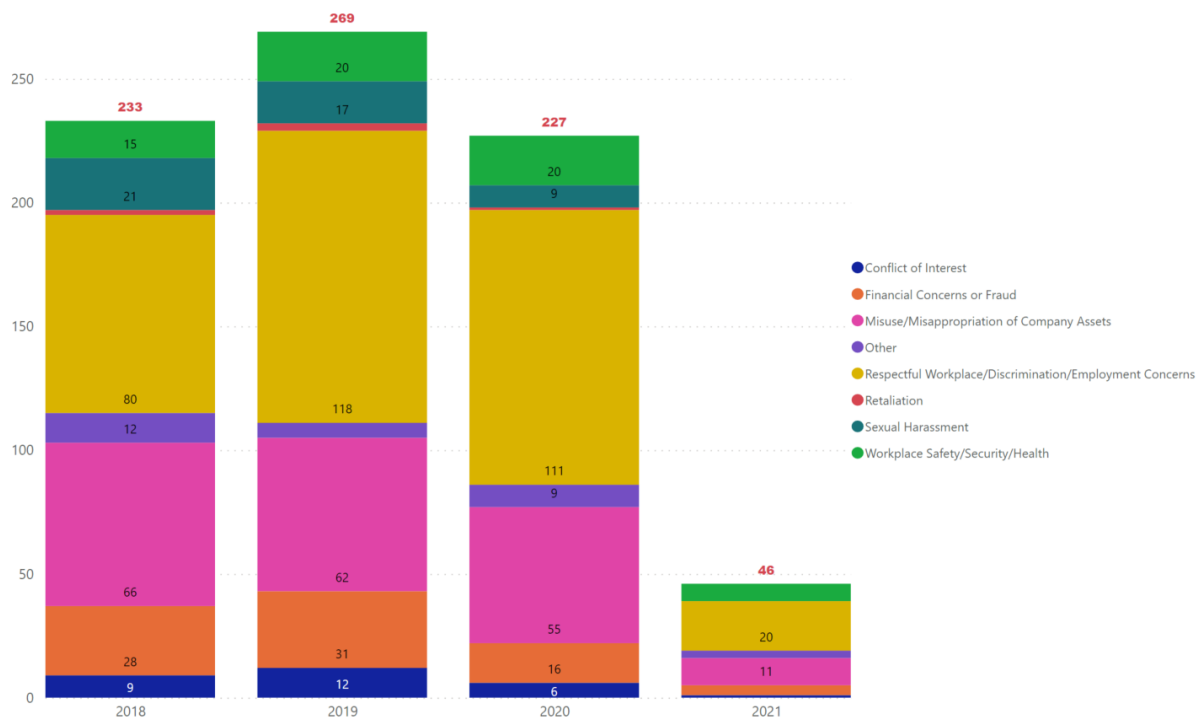
The next hot spot review presentation to the Exelon Board's A&R Committee came at the committee's April 25, 2022 meeting, as part of a general compliance update, as occurred in early 2021. This update covered the three general areas, providing a review of ethics investigations data, describing a refresh of the COBC, and summarizing interactions with public officials.

The ethics investigation data summary covered the period from January 1, 2019 through March 31, 2022. It noted logging in and ethics investigations for the Exelon service company (BSC) and the opcos. The database, upgraded in early 2021 captures more than 12 data points for investigations. The presentation cited its purposes as assisting business leader and Human Resources personnel to understand employee conduct risks and trends, EC&E and EAS to prioritize their work, and support Exelon board oversight of ethics program activities and investigations.

The presentation charted by year new cases opened, numbers substantiated/partially substantiated, average time to substantiation and the percentage of cases substantiated in wholes or in part, and substantiated cases by issue raised. The data showed stable rates of case openings since 2019, with a drop in the numbers substantiated. Respectful work place and discrimination cases made up the largest component of reported and of substantiated/partially substantiated cases, with those substantiated/partially substantiated dropping slightly over the period covered.

The presentation focused particularly on ComEd among the operating companies. It noted a higher than average ComEd drop in substantiated cases, coinciding with a reported focus by company leadership on the utility's culture. The presentation, however, noted that both reported and

substantiated/partially substantiated cases per 1,000 employees at ComEd approached twice the average of the other OpCos across the period. ComEd rates proved higher in nearly all case types.

Across Exelon, retaliation allegations made and substantiated remained at low levels. Rates of substantiation/partial substantiation remained fairly constant (26-28 percent), while average time fell by almost half, with the latter data coinciding with 2020 creation of the CIT.

The presentation noted management's decision to revisit the COBC, considering the 2016 vintage of its last revision and the separation from Constellation. EC&E coordinated the review, which included business stakeholders. The presentation noted the following key changes to the document, still pending reformatting and publishing, and to be accompanied by training on changes. The presentation cited the following changes:

- Changing language to fit the recently established utility-only business model with the separation from Constellation
- Conforming company values and expectations language to current usage
- Updating interaction with public officials and bribery prohibition language for alignment with revised company policies
- Rephrasing passages about standards from less direct statements of Exelon always does to more clearly obligatory language expressing what must be done
- Updating references to changed company policies and incorporating references to the new SCOC
- Replacing language that is unclear or inconsistent with current company standards.

As did the previous year's version, this presentation included a section on interacting with public officials. It cited completion by Government Affairs teams of reviews of external lobbyists and political consultants and of execution of updated contracts with them. IT also noted remediation efforts by EC&E and Government Affairs teams within the results of a recent EAS review of controls relating to lobbyists, political consultants, and certain suppliers. That review found inconsistencies between the records of EC&E and of Supply regarding supplier risk status. The presentation cited underway IT updating of software logic to eliminate inconsistency. The EAS review also found need for stronger documentation and records management, being addressed through creation of a checklist of recurring responsibilities and deliverables and development of common file structures and naming conventions to standardize document retention practices across affected organizations.

The presentation also included a chart showing total requests involving public officials, again noting total numbers made, granted, and not granted by category (service, charitable, vendor, other). Examples of requests captured included requests for campaign donations, contacts about suppliers in which an official had an ownership interest, intervention to expedite a pole relocation for the friend of an official, service requests for relatives or their utility accounts.